Goldman Sachs

“What rate cuts could mean for markets”

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Mike Washington: Is the market still too excited about the pace of rate cuts this year?

The market has gone from a 90 percent chance of a cut at the March meeting to just a 40 percent chance in less than a month. The Fed has had a material shift in rhetoric and narrative. The market was pricing in seven cuts. Now it's about five and a half.

I think five and a half is still too many. I think it's probably more like three to four. But that's actually not a bad thing. The economic data continues to be strong. Payroll's beat earlier this month. Average hourly earnings, retail sales, GDP have been a touch on the strong side. And I think that's why you're seeing this shift from the Fed moving to be a bit more hawkish and a bit more worried about inflation rather than a recession.

If we only get three to four cuts this year, that means that the market is in a terrific spot. Economic backdrop remains resilient. Growth is strong. I think that there's going to be a ton of choppiness.

Ultimately, I think when the year shakes out, we probably end up ten to 12 percent S&P.