THE WALL STREET JOURNAL.

MARKETS

Investors Look Forward to GDP Data Before Fed Decision

Reports on housing, durable goods and economic growth are due prior to expected rate cut

The S&P 500 has advanced almost 19% in 2019, getting a boost from expectations for the first interest-rate cut in a decade.
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By Jessica Menton

July 21, 2019 12:00 pm ET

Stocks are on one of their strongest runs in recent memory. Gains this summer have taken U.S. shares to fresh records, thanks in part to a Federal Reserve in a position to cut interest rates this month.

Before the Fed's first cut in a decade happens, investors will get a fresh read on the health of the economy. Reports on new-home sales and durable-goods orders are scheduled for Wednesday and Thursday, respectively, followed on Friday by a first reading of second-quarter economic growth. Recent data on retail sales, the labor market and industrial production over the past few weeks has been unexpectedly strong.

Economic data has looked sufficiently solid to make some investors believe that the U.S. expansion will be stable enough to continue without an immediate rate cut.

"The market wouldn't be pleased to see the Fed underdeliver, but the economy is still doing well and doesn't necessarily need the Fed to cut rates," said Charles Lemonides, portfolio manager at ValueWorks LLC. Others are more skeptical.

With the rate cut at the end of the month now a foregone conclusion, investors will be parsing data over the coming months to gauge what, if any, cuts will be made after July.

Central banks from South Korea to Indonesia to New Zealand have already begun to reduce rates to fend off slowing growth, and many attribute the stock market's 2019 gains in large part to expectations that the Fed will lower rates in the coming months.

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Do you think the market has been reacting appropriately to the possibility of a rate cut? Join the conversation below.

The S&P 500 has advanced 18.7% so far in 2019, its biggest such gain since 1998 and just the 10th time the broad index has advanced at least that much through the first 138 trading days of the year, according to Dow Jones Market Data.

It is hard to imagine how stocks will sustain their gains from here, said David Spika, president of GuideStone Capital Management.

"We can't forever be dependent on the Fed and on central-bank accommodation to push the stock market higher," Mr. Spika said. "I don't know how stocks can continue to grind higher because we're not seeing the economic and earnings growth that we need."

—Akane Otani and Amrith Ramkumar contributed to this article.

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Appeared in the July 22, 2019, print edition as 'Traders Await Fresh U.S. Growth Numbers.'