FINANCIAL MARKETS

Stocks close slightly lower

Sinead Carew and Lisa Pauline Mattackal
REUTERS

Wall Street's main indexes closed lower on Thursday as investors looked to higher-than-expected inflation and unemployment claims for indications on the health of the U.S. economy and the path for interest rates.

The closely watched Consumer Price Index rose 0.2% on a monthly basis in September and 2.4% on an annual basis, with both figures being slightly higher than estimated by economists polled by Reuters.

The core figure, which excludes volatile food and energy prices, rose 3.3% year-over-year, versus an estimate of 3.2%.

In a separate report released on Thursday, jobless claims also rose to 258,000 for the week ending Oct. 5, versus an estimate of 230,000.

"Investors were torn between a stronger-than-expected CPI report and a weaker-than-expected unemployment claims report," said Jack Ablin, chief investment officer at Cresset Capital in Chicago. "One showed inflation running hotter than expected, and the other showed the economy looking weaker than expected. It's the worst of both worlds."

After the economic data, traders were pricing in a roughly 80% probability that the Federal Reserve will cut rates by 25 basis points at its meeting in November and a roughly 20% chance it would leave rates unchanged, according to CME's FedWatch.

Atlanta Federal Reserve Bank President Raphael Bostic on Thursday said he would be "totally comfortable" skipping an interest-rate cut at an upcoming meeting of the U.S. central bank, adding that the "choppiness" in recent data on inflation and employment may warrant leaving rates on hold in November.

Chicago Fed President Austan Goolsbee said he sees "gradual" rate cuts over the next year and a half, while the New York Fed's John Williams said he still sees rate reductions ahead.

The Dow Jones Industrial Average fell 57.88 points, or 0.14%, to 42,454.12; the S&P 500 lost 11.99 points, or 0.21%, to 5,780.05; and the Nasdaq Composite lost 9.57 points, or 0.05%, to 18,282.05.

Both the S&P 500 and the Dow had notched record closing highs in the previous day's session.

Only three of the S&P 500's 11 major industry sectors advanced on Thursday, with energy adding 0.8% and outperforming the rest as oil prices rose.

Oil futures rallied as U.S. fuel use spiked ahead of Hurricane Milton, which made landfall on Florida's west coast late on Wednesday. Oil prices are also being supported by supply concerns related to conflicts in the Middle East.

Investors are also preparing for the third-quarter earnings season, with major banks scheduled to report results on Friday.

The third-quarter earnings growth rate for the S&P 500 is estimated to come in at 5% year-over-year, according to estimates compiled by LSEG.

In individual stocks, Delta Air Lines fell 1% after it forecast quarterly revenue below expectations in anticipation of slower travel spending. Other airlines also lost ground, with American Airlines ending down 1.4%.

Shares of Pfizer fell 2.8% as former executives distanced themselves from activist investor Starboard's campaign against the drugmaker.

On U.S. exchanges, 11.02 billion shares changed hands compared with the 12.06 billion moving average for the last 20 sessions.

Declining issues outnumbered advancers by a 1.39-to-1 ratio on the NYSE, where there were 185 new highs and 55 new lows.

On the Nasdaq, 1,616 stocks rose and 2,576 fell as declining issues outnumbered advancers by a 1.59-to-1 ratio.

The S&P 500 posted 22 new 52-week highs and two new lows, while the Nasdaq Composite recorded 60 new highs and 163 new lows.

TD Bank to pay $3B and face asset cap to resolve US probe

DOJ cites 'convenient' environment for actors

Nivedita Balu, Chris Prentice and Karen Freifeld
REUTERS

TD failed to monitor over $18 trillion in customer activity for about a decade, enabling three money-laundering networks to transfer illicit funds, U.S. authorities said.
CHRIS HELGREN/REUTERS FILE

TORONTO – TD Bank became the largest bank in U.S. history to plead guilty to violating a federal law aimed at preventing money laundering, and agreed to pay over $3 billion in penalties to resolve the charges, government authorities said on Thursday.

The plea deal, which includes a rare imposition of an asset cap and other business limitations, arises from multiple government investigations into what authorities described as pervasive issues.

TD Bank shares fell almost 5% on Thursday afternoon.

For years, TD ignored red flags from high-risk customers and created a "convenient" environment for bad actors to exploit, the government said.

In one example, authorities said, TD Bank facilitated over $400 million in transactions to launder funds on behalf of people selling fentanyl and other deadly drugs.

TD is Canada's second-biggest bank and the 10th-largest in the U.S.

Two units of the bank pleaded guilty to conspiring to launder money and conspiring to fail to file accurate reports or maintain a compliant anti-money laundering program, the Justice Department said.

"TD Bank chose profits over compliance in order to keep its costs down," U.S. Attorney General Merrick Garland said at a news conference, noting TD was the largest bank to admit to violating the Bank Secrecy Act.

The asset cap, imposed by the Office of the Comptroller of the Currency, is a rare step typically reserved for severe cases. It deals a major blow to TD. The bank has sought to expand further in the U.S., which accounts for about a third of its income.

"We will make the necessary changes to put the bank on a stronger foundation," incoming CEO Ray Chun told investors on a conference call on Thursday. "This is TD's number-one priority, and my number one priority. Make no mistake, we will meet our commitments to our regulators… we will get the job done."

Some critics of the bank thought the plea deal was too lenient. U.S. Sen. Elizabeth Warren, a Democrat, said it "lets bad bank executives off the hook for allowing TD Bank to be used as a criminal slush fund."

'Most convenient bank'

TD failed to monitor over $18 trillion in customer activity for about a decade, enabling three money-laundering networks to transfer illicit funds through accounts at the bank, U.S. authorities said.

Bank employees "openly joked" about the lack of compliance on multiple occasions, Garland told reporters. Employees said TD's motto – America's most convenient bank – also made it attractive to criminals, authorities said.

TD Bank's issues were known at every level of the bank, authorities said. In some cases, TD did not flag suspicious activity until law enforcement raised attention to it. At times, tellers accepted gift cards as bribes.

"TD Bank knew of its compliance failures," said Deputy Attorney General Lisa Monaco. "As the light continued blinking red, TD Bank could only see green."

Fallout

The bank will pay a $1.4 billion fine to the DOJ, a record $1.3 billion to the Treasury Department's Financial Crimes Enforcement Network, $450 million to the OCC and another $123.5 million to the Federal Reserve.

The deal also includes the imposition of independent monitoring for four years and prevents TD from opening a new branch or entering a new market without the OCC's approval.

An asset cap is "worst case scenario" for TD, said Cormark Securities analyst Lemar Persaud before the deal was announced. The bank had already set aside $3 billion to cover fines.

Persaud drew a parallel with Wells Fargo, whose earnings have been constrained by a $1.95 trillion asset cap since 2018 following a fake accounts scandal. An asset cap would also constrain TD's profits, but to a lesser extent than it did for Wells Fargo, he said.

The probe has led to "significant underperformance" of TD's stock and prompted the retirement of its current CEO Bharat Masrani, Persaud said.

Masrani has been at the helm for nearly a decade and previously led its U.S. operations. He will leave next year.

The lender first revealed it was responding to inquiries from regulators and law enforcement last year, months after it scrapped a $13 billion purchase of regional lender First Horizon.

Investigators have been probing TD's internal controls since agents discovered a Chinese criminal operation bribed employees and brought large bags of cash into branches to launder millions of dollars in fentanyl sales through TD branches in New York and New Jersey, authorities said.

TD has spent millions to strengthen its compliance programs, fired dozens of staff at U.S. branches and named Canadian personal banking head Chun as incoming CEO, distancing the new chief from the scandal.

As part of the resolution, TD has begun remediation and agreed to continue to cooperate in ongoing investigations into individuals.

TD also has clawed back executive compensation, authorities said, nothing the deal marks the first time a company has to look at recovering more funds in the future from employees.

The cleanup effort will take years and require a lot of work and investment, Masrani said in a memo to staff seen by Reuters.

"This is a difficult chapter in our bank's history," Masrani said in a statement. "These failures took place on my watch as CEO, and I apologize to all our stakeholders."

Fed officials signal more rate cuts

Ann Saphir and Michael S. Derby
REUTERS

Financial markets reflected heavy bets the Federal Reserve would deliver a quarter-point rate cut at next month's policy meeting.
SARAH SILBIGER/REUTERS FILE

Slowly cooling inflation and a U.S. job market that remains strong but at risk of deteriorating give a green light for more interest-rate cuts in coming months, Federal Reserve policymakers indicated in remarks on Thursday, even as one suggested that skipping a move in November may be in order.

Data showed consumer price inflation edged down to 2.4% in September from a 2.5% pace the prior month, and weekly claims for unemployment insurance surged in a development that economists attributed in part to a temporary blow from Hurricane Helene.

With inflation now near the Fed's 2% goal, and the unemployment rate now at 4.1%, "we're trying to freeze the dual-mandate performance basically exactly where it is right now," Chicago Federal Reserve Bank President Austan Goolsbee told CNBC, referring to the Fed's two mandates of price stability and full employment.

"The vast majority (of Fed policymakers) believes that over the next 12 to 18 months, conditions continue to slowly and gradually improve to something like target, and rates gradually come down a fair amount to something well below where they are today," he said.

At an event at Binghamton University, New York Fed President John Williams said the timing and pace of rate cuts will depend on the data, but "based on my current forecast for the economy, I expect that it will be appropriate to continue the process of moving the stance of monetary policy to a more neutral setting over time."

Financial markets reflected heavy bets the Fed would deliver a quarter-point rate cut at next month's policy meeting and at each meeting through the first half of next year, with the policy rate likely going no lower than 3.5% by year's end. At midday, rate-futures pricing put about a 17% chance on no rate cut at all in November.

"I'm definitely open to that," Atlanta Federal Reserve Bank President Raphael Bostic told the Wall Street Journal, referring to a potential November rate-cut pause.

He said that last month he had penciled in just one 25-basis-point rate cut over the Fed's two final meetings of the year, a view also reflected in the projections of a half dozen of his fellow policymakers. There are 19 Fed policymakers in total, and a slight majority had written down projections that pointed to quarter-point cuts at each of the remaining 2024 meetings.

The Fed last month cut its policy rate by a bigger-than-expected half-of-a-percentage point.

Policymakers have said that was a "recalibration" of policy to better align borrowing costs with a big drop in inflation and bit of slowing in the job market since the central bank stopped raising rates back in July 2023, and should not be seen as suggesting the future pace of rate cuts.

Minutes of the Fed's meeting released on Wednesday showed the decision had been a close call, and Goolsbee on Thursday said he expected more close-call meetings ahead.

The short-term benchmark rate is now in the 4.75%-5.00% range. On Thursday, futures contracts that settle to the Fed's policy rate were pricing in a better-than-even chance of a policy rate in the 3.5%-3.75% range by June 2025, with a small chance of it going lower.

Economists had expected annual inflation to slow to 2.3% in September. From a month earlier, the CPI rose 0.2%, more than the 0.1% forecast by economists, boosted by shelter and food costs.

"The larger-than-anticipated gain in the September consumer price index doesn't signal a reacceleration in inflation, nor will it deter the Federal Reserve from cutting interest rates by 25 basis points at its November meeting," wrote Oxford Economics' Chief U.S. Economist Ryan Sweet. "The Fed needs to continue to normalize interest rates to keep the economy on the path toward a soft landing."

San Francisco Fed President Mary Daly late on Wednesday said that without a large reduction in rates she had been worried tight monetary policy could injure the labor market or break the economy. She now feels that smaller rate cuts ahead will likely be appropriate, with one or two reductions to come over the Fed's last two meetings of the year.