“Better Balance” Increases the Odds for a September Cut

August 1, 2024

The Fed kept rates unchanged as expected after yesterday’s meeting but signaled a rate cut in September is clearly in play. From the FOMC statement, “The committee judges that the risks to achieving its employment and inflation goals continue to move into better balance.” During the press conference that followed Fed Chair Jerome Powell was more direct in regard to future rate cuts, “…reduction in the policy rate could be on the table as soon as the next meeting in September.” Powell did emphasize that they would weigh incoming data, and no cuts or several are still on the table for next year, but we believe it is reasonable to presume that a cut(s) was discussed during this meeting.

Fed Funds Futures

Implied Policy Rate (%): 5.50%, 5.00%, 4.50%, 4.00%, 3.50%, 3.00%
Implied # of Hikes/Cuts Priced In: 0.00, -1.00, -2.00, -3.00, -4.00, -5.00, -6.00, -7.00
07.31.2024, 09.18.2024, 11.07.2024, 12.18.2024, 01.29.2025
Federal Open Market Committee Meeting Dates

12.31.23 Implied Hikes/Cuts
03.31.24 Implied Hikes/Cuts
07.31.24 Implied Hikes/Cuts
12.31.23 Implied Rate
03.31.24 Implied Rate
07.31.24 Implied Rate

Bonds continued to rally as the yield on the U.S. 10-Year Note approached 4.00%. The yield closed at 4.04%, down 35 basis points (bps) for the month. The front end of the curve also rallied, with the two-year yield at 4.27%, down a whopping 48 bps over the last 30 days. These moves resulted in a less inverted curve. In fact, the slope of the two-year U.S. Treasury Note to 30-year is now positive after being negative for over a year. The market is anticipating a more normalized curve as inflation moderates, growth slows, and the Fed begins to ease. The market is now pricing in two full cuts for the remainder of 2024 and another four in 2025. This would result in a Fed Funds effective rate of approximately 3.50% by December 2025.

Fed = Federal Reserve. FOMC = Federal Open Market Committee. Chart data is as of 07.31.2024. Sources: Bloomberg L.P. The **fed funds rate** refers to the interest rate that depository institutions (such as banks and credit unions) charge other depository institutions for overnight lending of capital from their reserve balances on an uncollateralized basis. Yields are subject to market conditions and are therefore expected to fluctuate.

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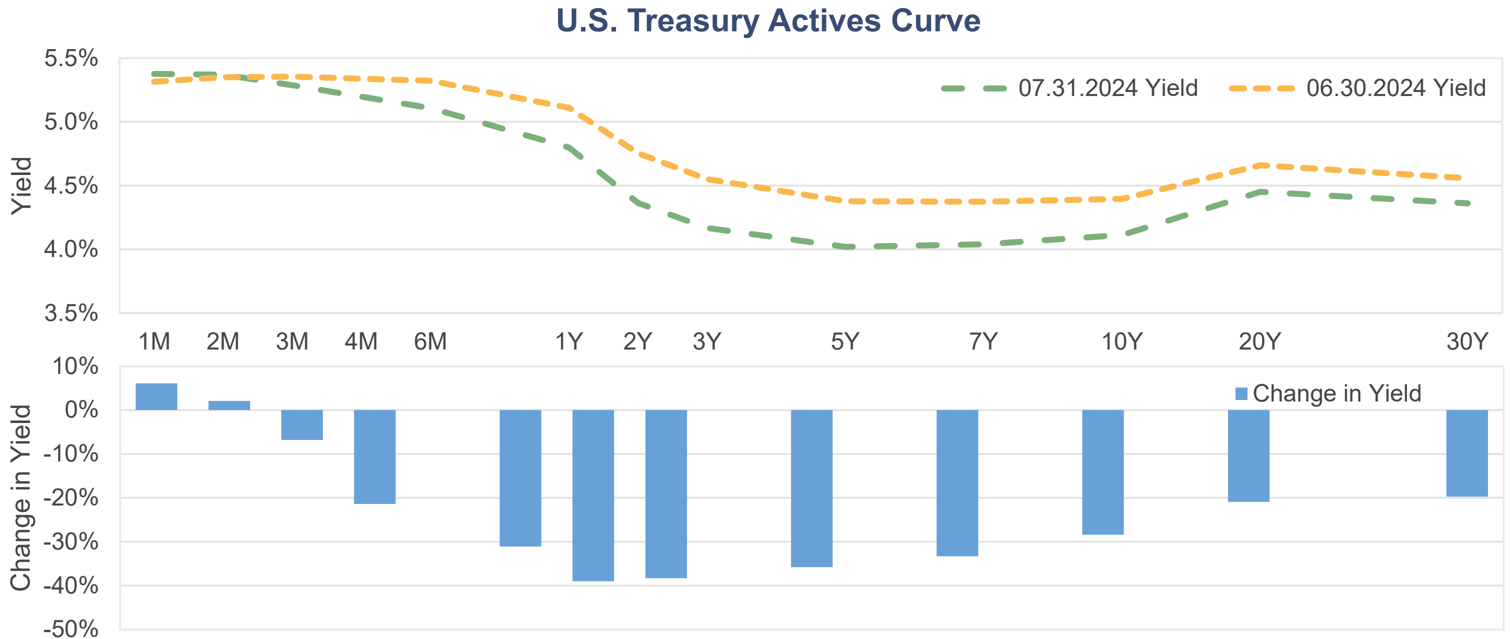

Our View

Since the beginning of July, the market has swiftly repriced rate hikes for this year and next. The odds for a cut in September have now doubled in 30 days and sit at over 100%. This more aggressive monetary policy expectation is largely based on softening economic data and a Fed Funds Rate that has been over 5% since May 2023. While we agree that the Fed is poised to cut, we also see signs that inflation, while slowing, remains sticky, especially within wages. Rates have fallen sharply in July, based on expected rate cuts, yet inflation remains above goal. Given the markets forecast and the corresponding move lower in yields, we have moved our duration positioning to neutral. With economic growth still strong, we continue to favor spread over U.S. Treasuries, overweighting both corporate and securitized bonds.

Chart data is as of 07.31.2024. Source: Bloomberg L.P. Yields are subject to market conditions and are therefore expected to fluctuate. The views expressed represent the opinions of Sterling Capital Management. Any type of investing involves risk and there are no guarantees that these methods will be successful.

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