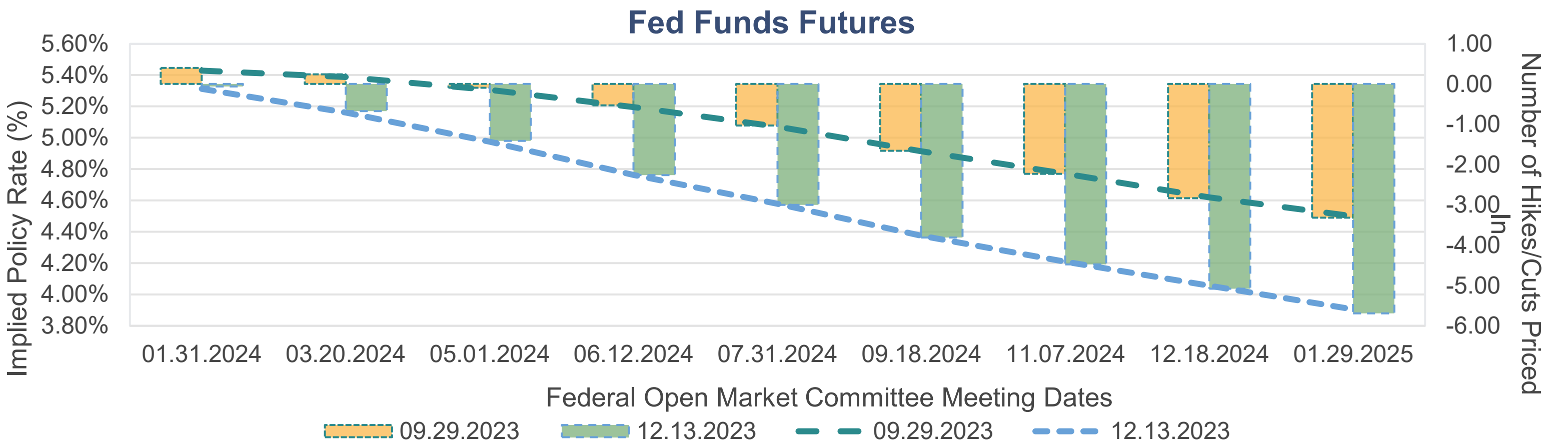
# Fed Preps for Pivot

December 13, 2023

A bond market that had just come off its strongest month in nearly 40 years in November continued to rally as the Federal Reserve's (Fed's) final meeting of 2023 supported the notion that the next move by the Fed will likely be rate cuts. While the committee unanimously voted to keep rates steady at 5.25% to 5.50%, no additional rate hikes are currently forecasted for the first time in over two years. In the statement, there was an acknowledgement that growth has slowed, and that "Inflation has eased over the past year but remains elevated." While Federal Reserve Chair Jerome Powell didn't rule out additional rate hikes, the statement was tweaked to add the word "any". In addressing this Powell stated, "we added any as an acknowledgment that we are likely at or near the peak rate for this cycle." Median forecasts for Fed Funds at the end of 2024 plummeted from 5.10% in September to approximately 4.60% at today's meeting. This implies a median forecast of 75 basis points of rate cuts in 2024.

While the market was already pricing in rate cuts in 2024, the dovish tone of today's statement and subsequent press conference only added fuel to this sentiment. The market is now pricing in approximately 150 basis points of cuts by the end of 2024, with greater than 50% odds that cuts begin in March. Risk assets across the investment spectrum rallied on this optimism with Investment Grade and High Yield bond spreads compressing to year-to-date tights. Bond prices rallied as the US 10-year Treasury note yield fell below 4.0%. This is a remarkable turnaround from less than two months ago when the yield crossed the 5.0% threshold in our opinion.




### Our View:

Today's Fed meeting supported the markets view that the next move in rates is likely a cut, but we still believe the magnitude and speed of these cuts is overly optimistic. Inflation has moderated from its highs but remains well above the Fed's 2.0% target as 2024's reduced Fed forecast is still at 2.40%. Additionally, growth remains strong as even the Fed's lowered projections have 2024 gross domestic product at 1.40%. The rally in rates from the mid-October highs has been swift. We do expect a slower economy in 2024 but are currently more aligned with the Fed's forecast versus the markets 150 basis points of cuts. Duration positioning remains neutral to slightly long. While we remain underweight treasuries relative to credit and securitized, we acknowledge that further spread tightening is likely limited from today's levels.



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Chart and textual data is as of 12.12.2023 and is sourced from Bloomberg L.P.