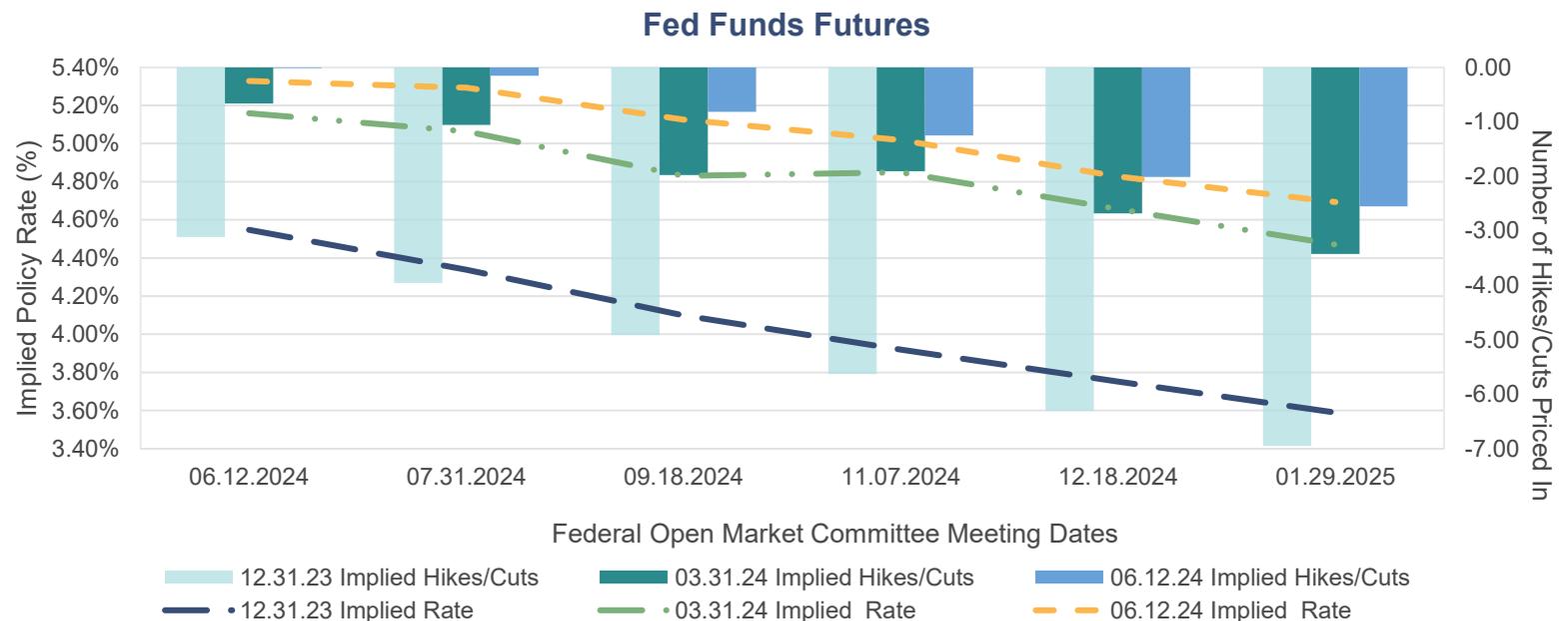


# When It Comes to Fed Policy, Follow the Data, Not the Dots

June 13, 2024

The Fed continued to keep rates steady at this week's FOMC meeting. This statement remained largely in-line with comments following the May 1 meeting, with the exception of noting "modest further progress" toward their 2.0% inflation target. The committee's median expectation for rate cuts in 2024 moved down from two to one expected cut this year, while inflation expectations moved slightly higher to 2.80%. Notably, four members now expect no cuts in 2024. The bond market, already rallying on a lower-than-anticipated CPI data point, sold off slightly but is well below recent highs. The 10Y U.S. Treasury Bill closed at a 4.32% yield, while the 2Y yield finished at 4.76%.

In the post-meeting press conference, Fed Chair Jerome Powell noted the significant progress thus far in lowering inflation from 7.0% to 2.7% and acknowledged that employment remains strong. However, he also acknowledged that unemployment, while still low, has risen from 3.4% to its current level of 4.0%. He also mentioned that current policy is restrictive, but inflation remains above the 2.0% goal.



## Our View

While the Fed's "dot plot", depicting its summary of economic projections, typically garners the most scrutiny and questions from investors, we are more focused on where economic activity may be headed. There have been many false starts and stops as data ebbs and flows. Tail risks remain higher than normal for a hard landing, for a recession, and for no landing at all. We believe the economy will continue to grow at an approximate 2.0% growth rate, and while inflation is cooling, it remains higher than the Fed prefers. As such, we think rates are currently in a trading range, with the U.S. 10Y T-Bill yield trading between 4.0% and 4.75%. We are positioned neutral to slightly long in terms of duration, as we expect growth to moderate from current levels. We currently favor securitized over corporate credit, with spreads at historically tight levels and risk/reward currently unattractive.

Fed = Federal Reserve. FOMC = Federal Open Market Committee. Chart and textual data is as of 06.12.2024 unless otherwise stated. Sources: Bloomberg L.P.; Sterling Capital Management Analytics. 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. A **hard landing** is a description of a marked economic slowdown or downturn following a period of accelerated growth. The **Consumer Price Index (CPI)** is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. Indexes are available for the U.S. and various geographic areas. Average price data for select utility, automotive fuel, and food items are also available.



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