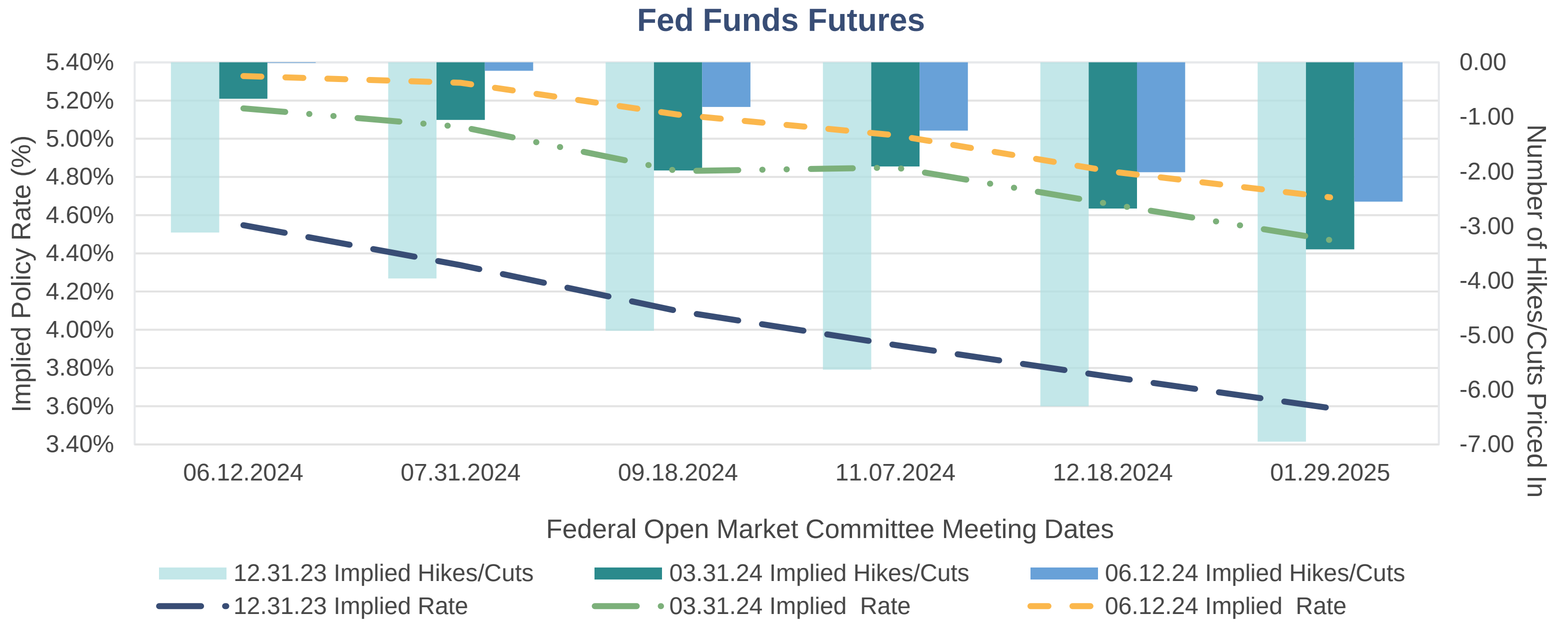
When It Comes to Fed Policy, Follow the Data, Not the Dots

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.

STERLING CAPITAL

Important Information and Disclosures

Past performance is not indicative of future results. Any type of investing involves risk and there are no guarantees that these methods will be successful. Economic charts are provided for illustrative purposes only. The information provided herein is subject to market conditions and is therefore expected to fluctuate.

The opinions contained in the preceding presentation reflect those of Sterling Capital Management LLC, and not those of Truist Financial Corporation or its executives. The stated opinions are for general information only and are educational in nature. These opinions are not meant to be predictions or an offer of individual or personalized investment advice. They are not intended as an offer or solicitation with respect to the purchase or sale of any security. This information and these opinions are subject to change without notice. All opinions and information herein have been obtained or derived from sources believed to be reliable. Sterling Capital Management LLC does not assume liability for any loss which may result from the reliance by any person upon such information or opinions.

Investment advisory services are available through Sterling Capital Management LLC, an investment adviser registered with the U.S. Securities & Exchange Commission and an independently-operated subsidiary of Truist Financial Corporation. Sterling Capital Management LLC manages customized investment portfolios, provides asset allocation analysis and offers other investment-related services to affluent individuals and businesses. Securities and other investments held in investment management or investment advisory accounts at Sterling Capital Management LLC are not deposits or other obligations of Truist Financial Corporation, Truist Bank or any affiliate, are not guaranteed by Truist Bank or any other bank, are not insured by the FDIC or any other federal government agency, and are subject to investment risk, including possible loss of principal invested.