BNY | INVESTMENTS

Insight INVESTMENT

INSTANT INSIGHTS

August 1, 2024

FIRST RATE CUT IN SEPTEMBER?

As markets expected, the Federal Reserve (the "Fed") held the fed funds rate at 5.25%-5.50%. Chair Powell appeared to begin setting the stage for a potential rate cut in September.

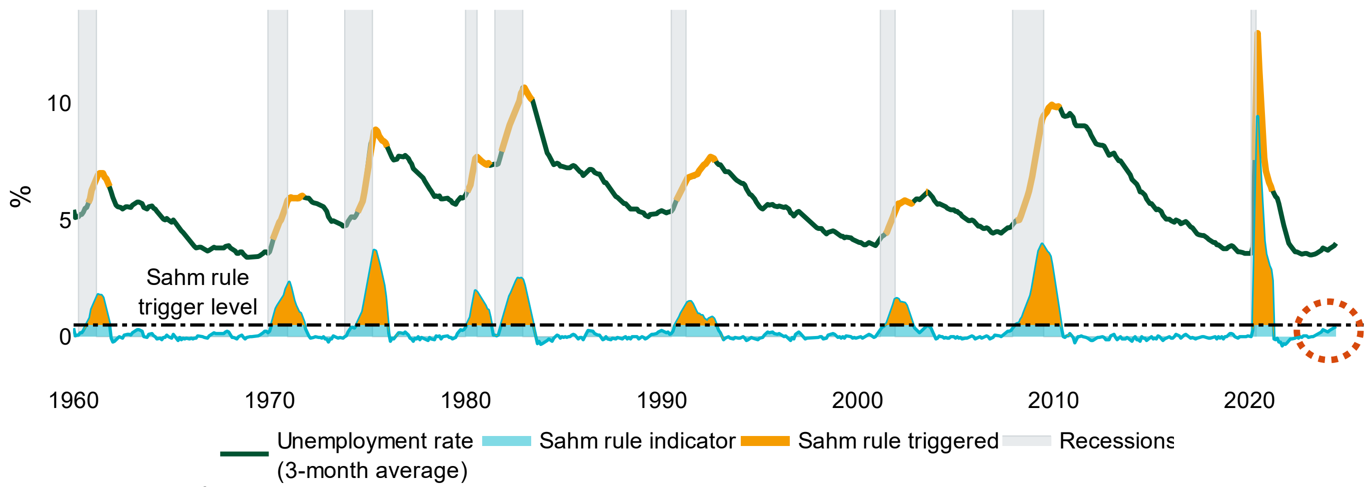
THE FED IS GETTING CLOSER TO ACHIEVING ITS DUAL MANDATE

The Federal Open Market Committee (FOMC) made some notable amendments to its official statement, acknowledging signs of loosening in the labor market and softening inflation. Chair Powell noted "considerable progress" toward its dual mandate.

The FOMC changed its characterization of job gains from "strong" to having "moderated." It also noted the unemployment rate is now "moving up" while remaining "low."

We suspect a concern of some officials may be the unemployment rate closing in on triggering the so-called "Sahm rule." The indicator is measured by the current three-month average unemployment rate, minus its minimum value over the previous 12 months. Every time the indicator has breached 0.5%, it has coincided with a recession. Currently, its value is 0.43% (Figure 1). Powell stated he "would not like to see further material cooling in the labor market," albeit "the chances of a hard landing are low."

FIGURE 1: THE UNEMPLOYMENT RATE MAY WORRY SOME FOMC MEMBERS[1]



Charts are provided for illustrative purposes only.

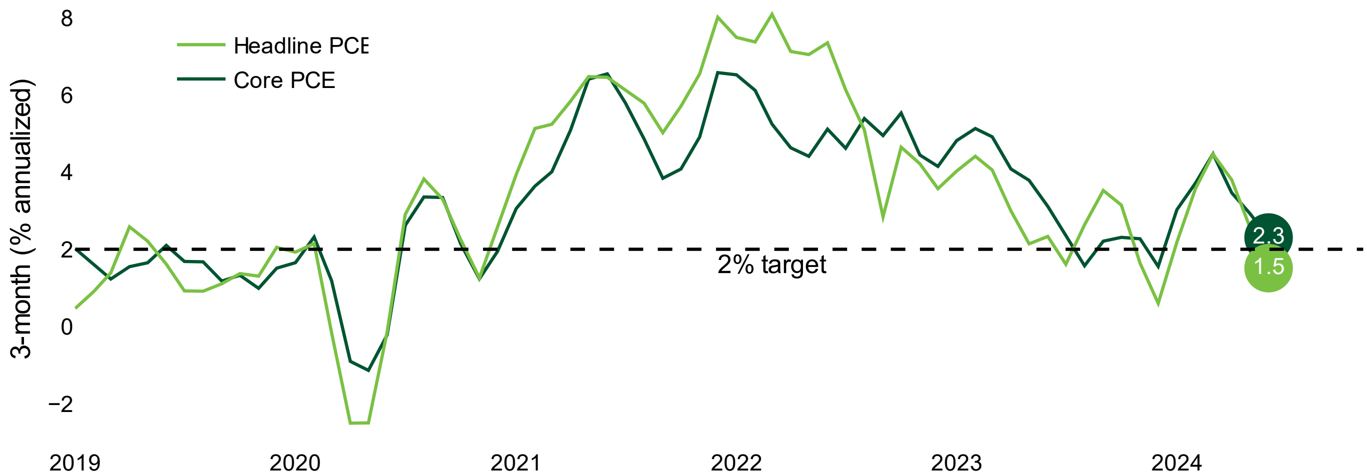
Regarding inflation, the FOMC removed a phrase stating it is "highly attentive to inflation," instead noting a softer stance of being "attentive to risks to both sides of its dual mandate."

Chair Powell also noted that inflation had eased "considerably," although the committee remained cautious about declaring victory. It retained language about requiring "greater confidence that inflation is moving sustainably toward 2%," albeit Powell stated that recent inflation prints have "added to our confidence, and more good data would further strengthen that confidence."

This reflects how the Fed's favored inflation metrics have made notable progress. For example, headline Personal Consumption Expenditures (PCE) inflation is below the Fed's 2% target on a three-month annualized basis, with core PCE close to target at 2.3% (Figure 2).

1 Bureau of Labor Statistics, Federal Reserve Bank of St Louis, Macrobond, Insight calculations, July 2024

FIGURE 2: THE FED'S PREFERRED INFLATION MEASURES ARE CLOSE TO ITS 2% TARGET[2]

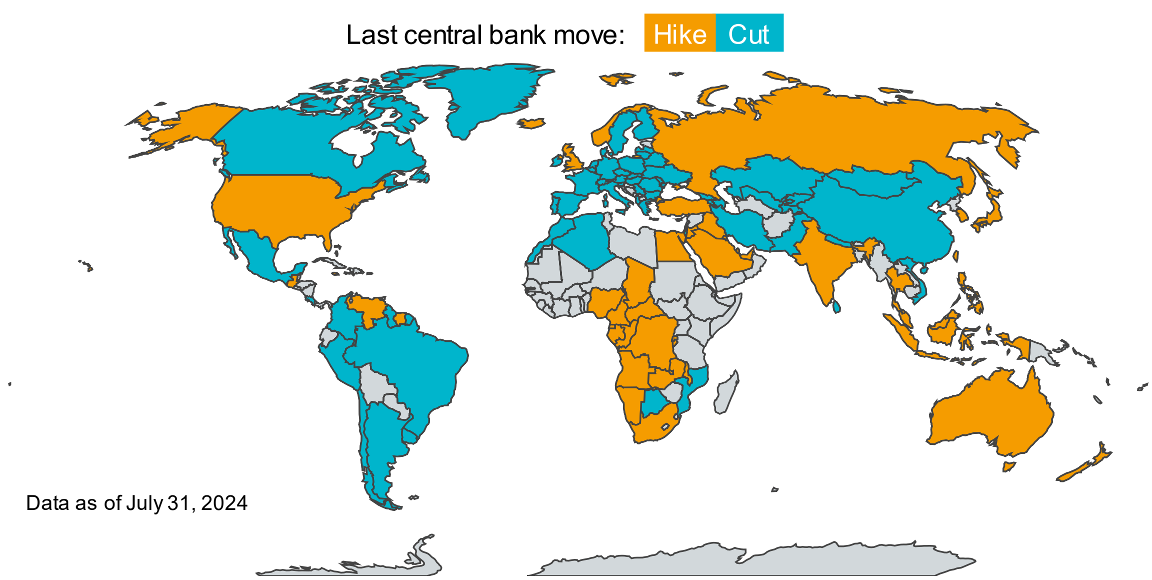


Charts are provided for illustrative purposes only.

THE FED MAY JOIN GLOBAL RATE CUTTING CYCLE SOON

Although US investors have had to wait for rate cuts, the international rate cutting cycle has been underway for some time. Several emerging markets began cutting rates in 2023, and developed markets followed earlier this year (Figure 3). We believe it may only be a matter of time before the Fed joins in.

FIGURE 3: THE GLOBAL HIKING CYCLE HAS BEGUN, IT MAY BE A MATTER OF TIME BEFORE THE US JOINS[3]



Charts are provided for illustrative purposes only.

WE EXPECT TO SEE THE FIRST RATE CUT IN SEPTEMBER

Chair Powell emphasized that "no decisions" have been made about the September meeting, although "a rate cut could be on the table" and "the economy is moving closer to the point where it will be appropriate to reduce our policy rate."

If data continues to improve, we suspect that Chair Powell will use his address at the Jackson Hole Symposium in August to offer further indications about potential rate cuts. We see a potential cut in September as the most sensible base case.

Until then, we continue to believe it may be worth it to consider fixed income exposure while rates remain at the top of the cycle.

2 Bureau of Economic Analysis, Macrobond, Insight calculations, July 2024
3 Macrobond, National sources, Insight, July 2024

LEARN MORE

Call **1-800-373-9387** or visit **im.bnymellon.com**.

DISCLOSURE

All investments involve risk, including the possible loss of principal. Certain investments have specific or unique risks that should be considered along with the objectives, fees, and expenses before investing.

This material has been provided for informational purposes only and should not be construed as investment advice or a recommendation of any particular investment product, strategy, investment manager or account arrangement, and should not serve as a primary basis for investment decisions. Prospective investors should consult a legal, tax or financial professional in order to determine whether any investment product, strategy or service is appropriate for their particular circumstances. Views expressed are those of the author stated and do not reflect views of other managers or the firm overall. Views are current as of the date of this publication and subject to change. This information contains projections or other forward-looking statements regarding future events, targets or expectations, and is only current as of the date indicated. There is no assurance that such events or expectations will be achieved, and actual results may be significantly different from that shown here. The information is based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons. References to specific securities, asset classes and financial markets are for illustrative purposes only and are not intended to be and should not be interpreted as recommendations. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission.

Sahm Rule says that a recession appears on the horizon after the unemployment rate's current three-month moving average exceeds the lowest three-month moving average of the trailing 12 months by half a percentage point or more. **Dual mandate** The first is to maintain maximum employment and the second is the keep prices stable while and long-term interest rates at moderate levels. **Personal consumption expenditures (PCE**), also known as consumer spending, is a measure of the spending on goods and services by people of the United States. **Core CPI** excludes the more volatile food and energy categories. The **Consumer Price Index (CPI)** measures the monthly change in prices paid by U.S. consumers. The Bureau of Labor Statistics (BLS) calculates the CPI as a weighted average of prices for a basket of goods and services representative of aggregate U.S. consumer spending.

BNY Investments is one of the world's leading investment management organizations, encompassing BNY's affiliated investment management firms and global distribution companies. BNY, BNY Mellon and Bank of New York Mellon are the corporate brands of The Bank of New York Mellon Corporation and may be used to reference the corporation as a whole and/or its various subsidiaries generally.

Investment advisory services in North America are provided by Insight North America LLC, a registered investment adviser and regulated by the U.S. Securities and Exchange Commission (SEC). Insight North America LLC is associated with other global investment managers that also (individually and collectively) use the corporate brand Insight Investment and may be referred to as "Insight" or "Insight Investment."

Not FDIC-Insured. Not Bank-Guaranteed. May Lose Value.

MARK-585160-2024-07-31

BNY | INVESTMENTS