INSTANT INSIGHTS

December 19, 2024

Slightly Slower Pace of Cuts?

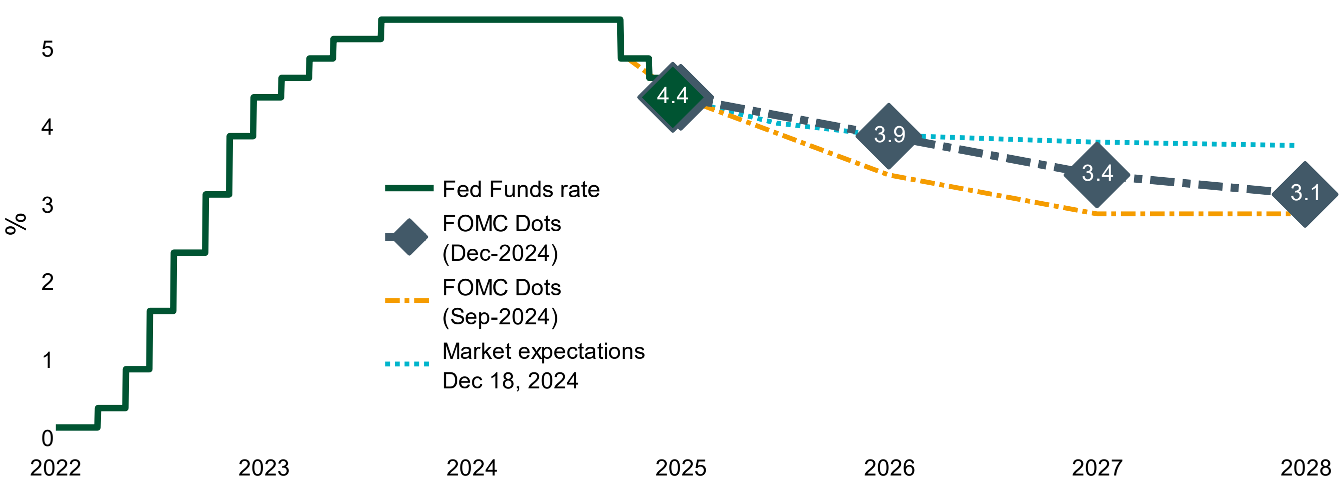
The Federal Open Market Committee (FOMC) cut the Federal Reserve (the "Fed") funds rate by 25bp, taking it to a range of 4.25% to 4.50% with one member voting for no cut. The central bank nonetheless dialed back its future rate cut projections and revised higher its inflation forecasts.

While we expect the rate cutting cycle to continue in 2025, the Fed may be more cautious as the new administration's economic agenda crystallizes.

FOMC DIALS BACK ITS RATE CUT ESTIMATIONS

The FOMC adjusted its median "dot plot" interest rate projections to reflect only two rate cuts in 2025, down from the four it projected in September (Figure 1). Its median projection of the longer-run "neutral" rate also rose slightly from 2.9% to 3%.

FIGURE 1: THE FOMC PROJECTS FEWER RATE CUTS IN 2025[1]



Charts are provided for illustrative purposes only.

The FOMC made no significant changes to its official statement, reiterating that "risks to achieving its employment and inflation goals are roughly in balance."

THE FED IS STILL WATCHING BOTH SIDES OF ITS MANDATE CLOSELY

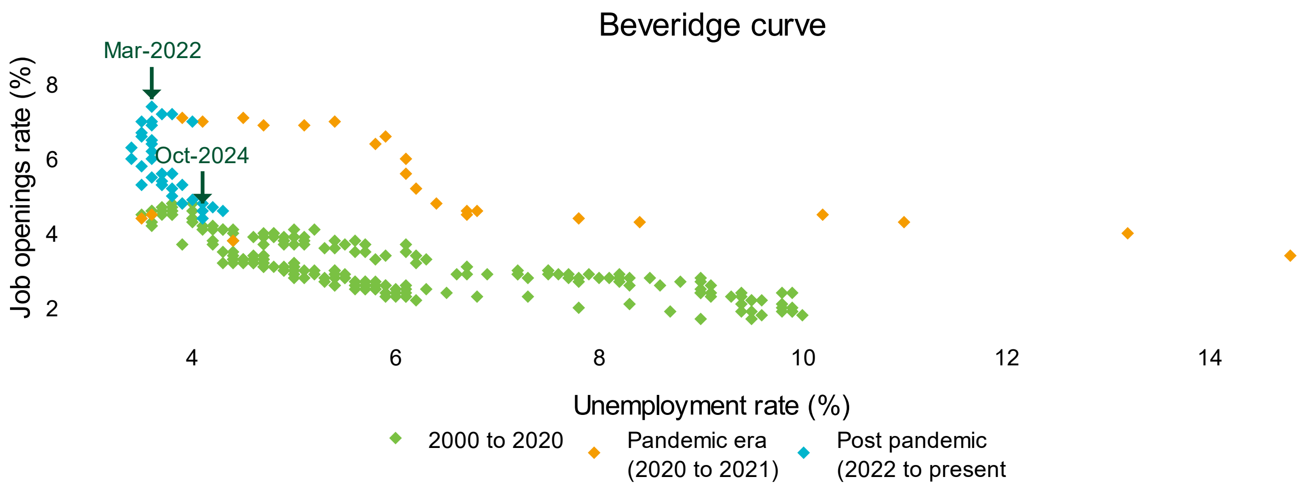
The FOMC updated its quarterly Summary of Economic Projections (SEP). For 2025, it increased both its headline and core inflation projections from 2.1% and 2.2%, respectively, to 2.5%. Chair Powell stated that this was related to slower progress in areas like shelter inflation over recent months. He also admitted that "some" committee members did start to consider President-elect Trump's economic agenda although he stressed that the impact of potential tariffs remains highly uncertain at this stage. Nonetheless, he stated that he believes the central bank is "broadly on track" to meet its inflation goals.

1 Federal Reserve, Bloomberg, Insight, December 2024.

Elsewhere, the committee left its medium- and longer-term GDP and inflation projections trending at 2% and 4.3%, respectively. Powell stated that the decision to cut rates was a “closer call” than in previous meetings but that moving too slowly would “needlessly risk undermining economic activity and the labor market.” Although Powell noted that downside risks to the labor market “have diminished” he mentioned the central bank would like to keep the labor market roughly “where it is” and “we don’t think we need further labor market cooling to get inflation down to 2%.”

When we examine the connection between the demand and the supply of labor using the "Beveridge" curve, we are currently at a point on the downward-sloping curve where additional labor market moderation will probably require a higher unemployment rate (Figure 2).

FIGURE 2: THE FUTURE LABOR MARKET MODERATION MIGHT MEAN A HIGHER UNEMPLOYMENT RATE[2]



Charts are provided for illustrative purposes only.

RATE CUTS ARE CONTINUING BUT EXPECT A MORE CAUTIOUS FED

We expect the Fed will become more cautious over 2025 given uncertainty around the incoming administration’s economic agenda. Nonetheless, we expect the rate cutting cycle to continue over the near term, and we believe it remains a compelling environment for fixed income markets.

2. Macrobond, Bureau of Labor Statistics, Bloomberg, Insight, December 2024.

This Page Left Intentionally Blank

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.

Federal Open Market Committee (FOMC) is the branch of the Federal Reserve System (FRS) that determines the direction of monetary policy in the United States by directing open market operations (OMOs). 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. **Headline CPI** is the raw inflation figure reported through the Consumer Price Index (CPI) monthly. **Core CPI** excludes the more volatile food and energy categories. The **Beveridge curve** is a graph that shows the relationship between the number of job vacancies and the unemployment rate. The **FOMC dot plot** is a chart that summarizes the Federal Open Market Committee's outlook for the federal funds rate.

BNY Investments is one of the world's leading investment management organizations, encompassing BNY's affiliated investment management firms and global distribution companies. BNY is the corporate brand 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."

MARK-658756-2024-12-18
IM-ITISSLTSPCTHO-1224

BNY | INVESTMENTS