The Rate Cut Cycle Has Begun

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The Wait is Over

We can exhale – the Federal Open Market Committee (FOMC) opted for a larger 50 basis points (bps) cut, a move favored by markets despite many economists' forecast of 25 bps. That said, the question remains: did the Fed go big because they were criticized for underreacting when inflation surged and viewed today as a chance to restore their credibility and market stability? Or did wider concerns regarding the strength of the economy, and specifically the labor market, underpin this more aggressive decision?

What is clear, nonetheless, is that rate cuts are expected to continue as the Fed's dual mandate of price stability and maximum employment trend in the right direction. With inflation largely in check, signs of weakness in the labor market have taken center stage and become the primary factor in future rate cut considerations.

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We also find it is necessary to highlight investors' acute monetary policy fascination while expressing concerns about the detrimental economic realities of U.S. fiscal policy (i.e., the debt and ongoing budget deficits). As observers of the market, we can only wonder whether this avid preoccupation with each Fed decision is more of a situation of the tail that is wagging the dog.

Ultimately, regardless of the exact path these reductions take, our team remains attuned to perhaps the greatest uncertainty at hand – that is, the final resting place for the terminal rate and the pace with which the Fed reaches it.

Sincerely,

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