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Investments - Flash

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THE FEDERAL RESERVE CORRECTS ITS JUNE INACTION

Six more rate cuts before the end of 2025

By lowering rates by 50 bps, it has decided to erase its last two hikes of May and July 2023, but we believe it is implicitly acknowledging that it could perhaps have already acted in June with an initial 25 bp cut. The monetary easing cycle is therefore now underway, and the FOMC Dots median projection for the end of 2025 is accordingly lowered to 3.375. This target suggests around six rate cuts over the next fifteen months. But on the FedFunds side, the implied rate for end-December 2024 of 4.32% has already been lowered to 3.25% for end-June 2025. Without any major surprises, and maintaining a scenario of moderate slowdown in US growth still above +2% annualized over the next three quarters, we estimate that the market is already expecting six rate cuts before June 2025. The US central bank has therefore set a new course for rate cuts in 2025, towards an estimated target of between 3.25% and 3.5%. A few months ago, the Fed Chairman had already stressed that he was ready to loosen the reins of policy if inflationary parameters allowed and if the job market showed signs of slowing, which is now the case. He also mentioned that he would not wait for inflation to fall below his technical target of +2%, in which case he would implement the expected easing. This is also the case, since inflation is indeed slipping, but has not yet reached the +2% threshold. We estimate that the Federal Reserve will lower its key rates again on November 7, by a standard increment of 0.25%, in the wake of the US presidential elections. This is still a good time to extend the duration of USD-denominated bond segments, as ten-year Treasury yields are once again above 4%.