Macro Perspective
September 2024

AEGON **INSIGHTS**

September FOMC: A hawkish 50

The Federal Open Market Committee (FOMC) kicked off its rate-cutting cycle in a big way on Wednesday, lowering its benchmark fed-funds rate to between 4.75% and 5.00%. That marks its first rate reduction since 2020.

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Super-sizing this cut—i.e., 50 basis points (bps) instead of 25—but doing so with the first dissension from a Fed official on a rate decision in almost two decades is interesting, especially given the above-trend growth forecasts that accompanied the move.

Furthermore, 9 of 19 FOMC members forecasted just 75 bps of cuts in 2024. In that case, there would only be one more rate reduction from here over the next two meetings. The Fed's urgency to go straight to a 50-bps cut is indeed a head scratcher, particularly when its telegraphed pace shows no particular urgency to get to the neutral level that's in its own forecast.

Federal Reserve Chairman Jerome Powell, in his after-meeting speech, almost made it sound that in hindsight the Fed should have cut in July. Which begs the question: Was Wednesday's move a 25-bps cut, along with a catch-up 25-bps cut?

Meanwhile, the Fed's freshly updated economic forecast, the Summery of Economic Projections, shows above-trend growth as far as the eye can see. Interestingly, in it, unemployment drifts higher and peaks at 4.4%, which implies a supply-side labor phenomenon rather than a weakening in demand for labor.

Wednesday's 50-bps rate cut was basically a front-loaded move. From there, the Fed wants to communicate more 25-bps cuts, but also wants to have its 50-bps cut torpedo tubes flooded and ready to fire if needed.

But that's the issue. There are a lot of cross signals and the market, in the immediate aftermath of the release, didn't love the aggregate of the Fed's message. For instance, a higher terminal funds rate (which Powell hinted could be even higher) and relatively low peaks in unemployment point to a very soft landing. From this standpoint, the hawkish 50-bps cut was definitely more bearish for rates than a dovish 25 would have been. Ironically, the markets would have probably reacted better to the latter scenario.

In lieu of Wednesday's events we are tweaking our forecast to adjust for the super-sized cut, but we are not extrapolating too much more from it. We continue to see sequential 25-bps cuts from here on out until 3.0% is reached.

Aegon AM Economic Forecasts

	2021	2022	2023	2024e	2025e
GDP (Real %, YoY)	5.8	1.9	2.5	2.5	1.6
Unemployment (%)	5.4	3.6	3.7	4.1	4.5
Core PCE (%, YoY)	3.2	5.2	4.2	2.7	2.2
Fed Funds-Upper Bound (%)	0.25	4.50	5.50	4.50	3.00
Tsy10 (%)	1.51	3.88	3.88	4.05	4.00

As of: September 18, 2024

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