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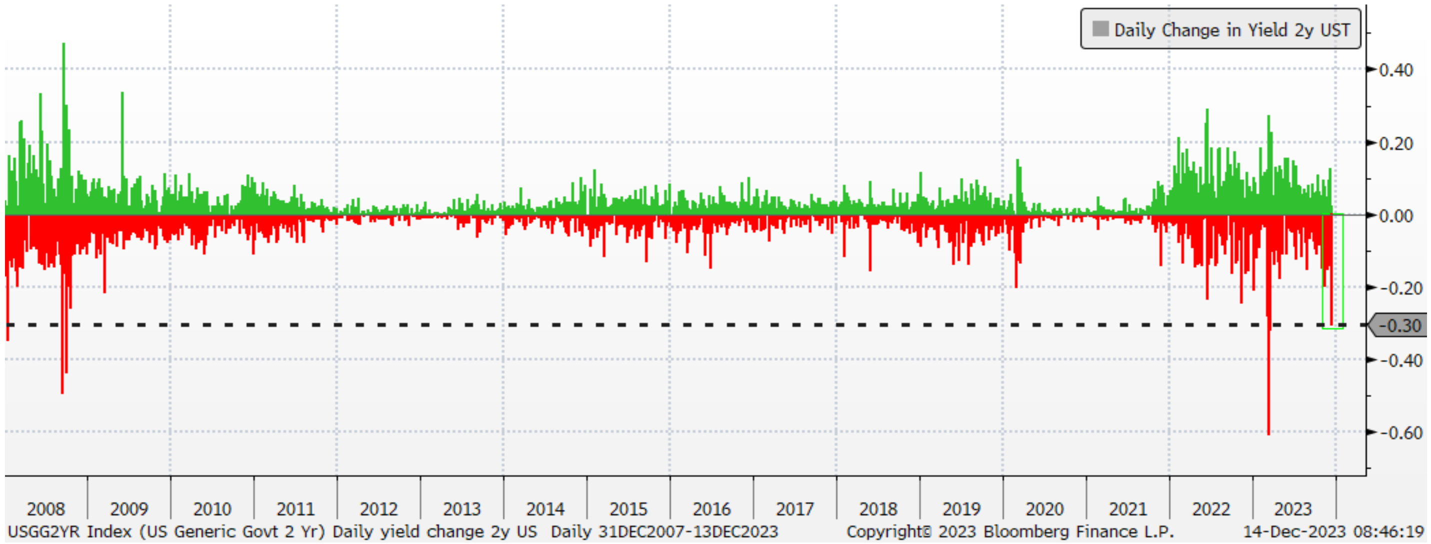
Fed / Financial Markets Update



- At its December meeting (12/13), the Federal Reserve signaled the possibility of three rate cuts (equivalent to 75 basis points (bps)) in 2024. The Fed has shifted over the past 12 months from how high to raise rates, to how long to keep them there, and now, when to cut.

- During his press conference, Chair Powell said that the Fed would begin cutting rates before inflation fell to the institution's 2% target. He also noted that the Fed was "very much focused" on the risk of keeping rates too high for too long.

- The 'dovishness' of Powell came as a surprise to investors and led to a sharp decline in yields, increasing bond prices. It was another example of how quickly '50 shades of Jay' can change his messaging after he spent much of the last several months talking about financial conditions and keeping rates restrictive for an extended period.

- The 30 bps decline in 2y U.S. Treasury yields were the largest decline since March, before that, 2008 was the last time that 2y yields declined by 30 bps or more. The yield on 10y U.S. Treasury, after almost topping 5% in October is now back below 4%.

- Investors are now pricing in 150 bps (equivalent to six 25 bps cuts) next year, with an 82% odds of at least a 25 bps rate cut by March.

- Along with the sharp move lower in rates, risk assets moved higher in price. The investment-grade corporate bond index rose by 1.43% on the day. Within equities, the Dow Jones Industrial Average (and Apple) hit a new all-time high as did Apple. The equal-weight version of the S&P (each company has a 0.2% weight regardless of size) hit a 21-month high, showing a welcomed increase in market breadth.

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