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Swings in the Policy Sensitive 2- Year U.S. Treasury Yield

- This morning's report on the labor market showed continued resilience as job growth picked up in December and wage gains exceeded expectations.

- Following the release of the data, interest rates continued their climb higher, as investors pared back expectations that the Federal Reserve will cut rates at the March meeting. The market is now pricing in slightly less than a 50% chance of a rate cut in March, down from the near 90% odds that was pricing in at the start of the year.

- During yesterday's outlook call, I noted that bouts of volatility are likely to continue and that one source of volatility will be shifting views around the timing and magnitude of Fed rate cuts. At the start of the year, the market was pricing in 150 bps of rate cuts in 2024, beginning at the March meeting. **Our view was that the magnitude and timing look quite optimistic given the resilience of the economy, and the market may have to dial back these expectations – price in fewer cuts and/or a later date for the first cut.**

- Such periods of volatility, when interest rates move sharply higher or lower based on changing views around Fed policy – and the pendulum swinging too far in both directions – can offer great opportunities for active management to tactically position portfolios *around* their strategic long-term strategy.

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