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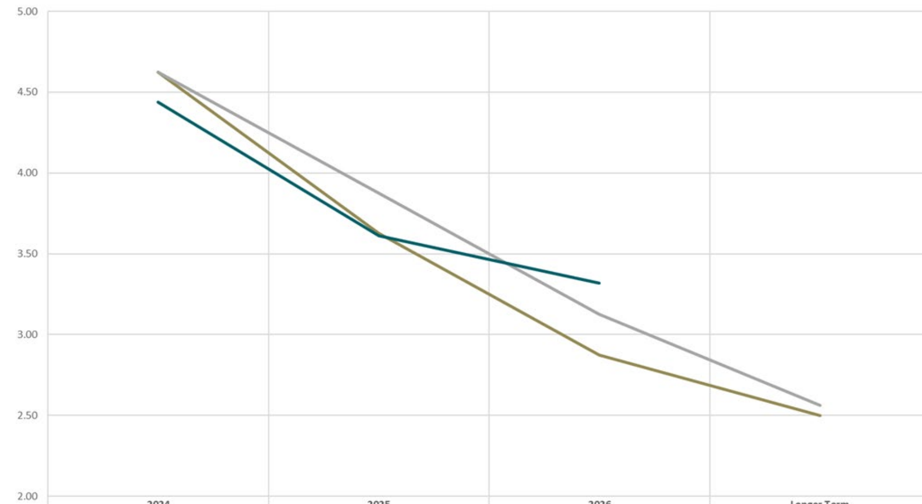
Dot Plot



	2024	2025	2026	Longer Term
Fed Median Dot - 12/13/23	4.63	3.63	2.88	2.50
Fed Median Dot - 03/20/24	4.63	3.88	3.13	2.56
Market-Priced Expectations	4.44	3.61	3.32	

- As expected, the Federal Reserve (Fed) kept its policy rate at 5.25%-5.50% (5.375% midpoint) for a fifth consecutive meeting.
- The quarterly update of the Summary of Economic Projections (SEP), which includes the 'dot plot', was released.
- The dot plot is a visual representation of where each Fed official expects the Federal funds policy rate to end each of the next three years and the appropriate level over the longer run (often viewed as the 'neutral rate'). Investors focus on the median dot.
    - It should be noted that the track record of the Fed's dots, since first being released in 2012 has not been very good. In fact, at no year-end has the policy rate been where the Fed predicted. However, in the near term, dots and changes in the level of the dots can drive markets.
- **Despite inflation surprising to the upside in January and February, the median dot for 2024 remained unchanged from last quarter's forecast – with the dots continuing to show the Fed's expectation for 75 basis points(bps) of rate cuts in 2024** (often referred to as expecting 3 rate cuts as the standard magnitude of a rate cut is 25 bps).
- The median dot for 2025 and 2026 moved higher by 25 bps, reflecting the Fed's expectation for one less cut in 2025.
- The longer-term dot also edged up continuing a recent trend of gradual increases. This reflects a slow acknowledgment that inflation may be biased toward a higher resting heart rate relative to 2009-2020 and therefore require a higher neutral funds rate.
- **The market is pricing a 13% chance of a rate cut at the May meeting and a ~65% of a rate cut at *either* the May or June meeting.**
- Elsewhere in the SEP, the Fed revised higher both economic and inflation projections for this year, while revising lower its unemployment forecast.
- All-in-all, **the takeaway from yesterday's updated SEP is a growing belief at the Fed of immaculate disinflation** – where inflation will continue to gradually moderate towards their 2% target without requiring a slowdown in the economy or a rise in unemployment. If they were to pull off such a feat, it would be a masterclass in central banking.
- Our view is that at some point, **they may have to accept inflation slightly higher than their 2% target or accept that a recession and a rise in the unemployment rate are necessary to bring inflation back down to 2%.**

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