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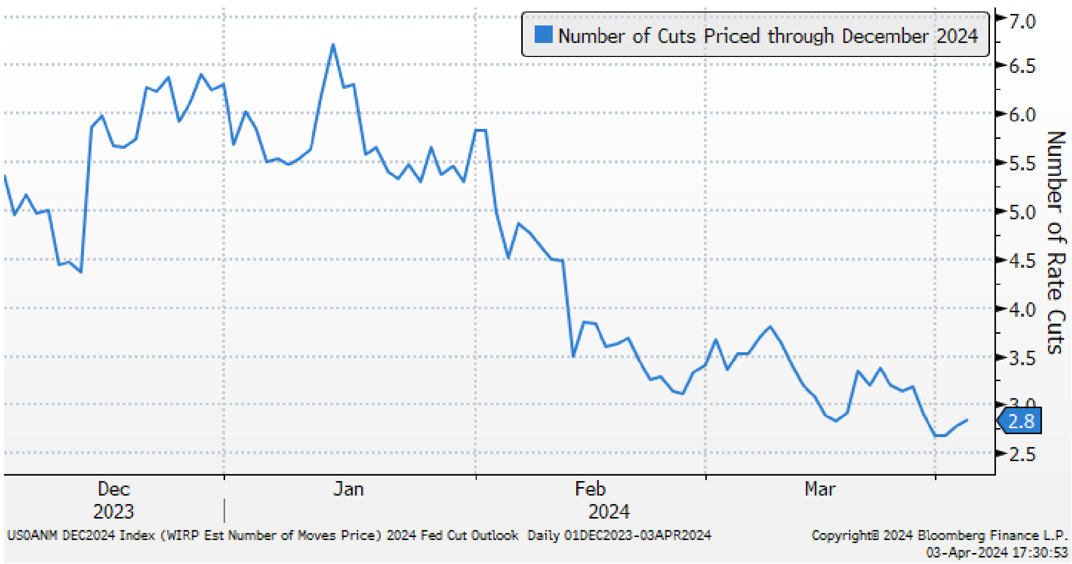
Cutting Rates



- Markets have dramatically re-priced expectations lower for the number of rate cuts in 2024.
- At the start of the year, the market was pricing an expectation for nearly 7 (25 basis points (bps)) rate cuts in 2024 or ~175 bps.
- The combination of above-trend growth and a reacceleration in inflation during the first quarter led investors to reprice expectations for the timing (later) and magnitude (from 7 cuts to 3 cuts) of rate cuts.
- This change in expectations has led to a rise in interest rates, with yields on 2-year and 5-year U.S. Treasury bonds increasing by 42 bps and 48 bps, respectively.
- Entering the year, our view was that market pricing had been to exuberate around the outlook for rate cuts. Therefore, we began adding more floating rate exposure into core fixed income portfolios.
- Currently, we think pricing roughly 3 rate cuts for the year is fair and we are therefore more neutral on our view around the level of interest rates. The Fed's message from its March meeting is that it may tolerate slightly above-target inflation in the near-term, signaling its desire to ease policy this year.

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