RBC Global Asset Management

Thoughts on the March FOMC Meeting

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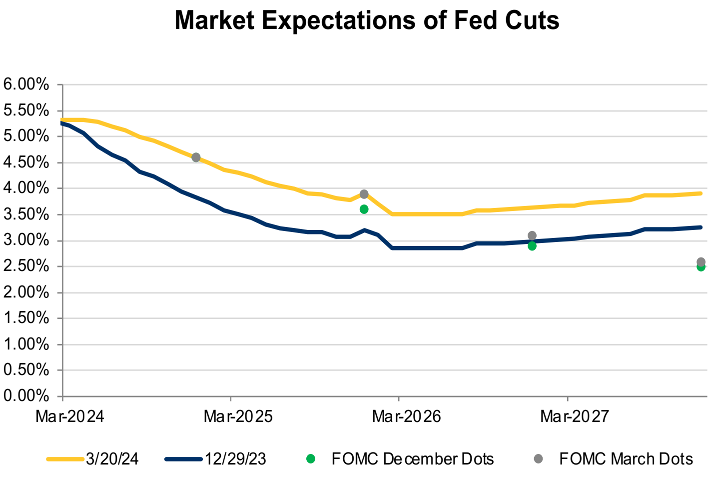
As expected, the Federal Open Market Committee (FOMC) left rates unchanged at their March meeting. Markets have been closely watching the Fed for changes in expectations on the future path of rates as economic data continues to point to a resilient labor market and strong consumer demand. The resiliency of the US economy and inflation data that has surprised to the upside in recent months has called into question how much the Fed will in fact look to cut rates in 2024 and even if the ultimate ending point of Fed Funds might be higher than projected.

Investor focus was clearly on the dot plot and the summary of economic projections (SEP). Compared to the December SEP, the FOMC upgraded growth prospects (to over 2% in 2024) and modestly raised 2024 inflation forecasts, while leaving longer outlook unchanged. Median dot plots of the Fed Funds rate still indicate 3 cuts this year and 3 cuts, down from 4, in 2025. Long-term Fed funds dot moved up marginally from 2.5% to 2.6%. If this trend were to continue in future meetings, it would have meaningful expectations for the pace of cuts in 2025 and beyond. However, for the time being, the outlook points to a slightly shallower path, but hardly a dramatic change.



Source: Bloomberg and federalreserve.gov

This release will be seen as mildly reassuring as the feared step-down to 2 cuts in 2024 did not happen, and Fed Chair Powell continued to balance their outlook with the expectation that the Fed will continue to be data focused, while projecting confidence in taming inflation. Equity markets have continued to climb higher following the meeting with the S&P 500 continuing to hit record highs. Treasury yields were little changed.

We maintain the view that Fed is likely to cut rates around the mid-year point in June or July, but will be closely watching March inflation data, following consecutive disappointments in January & February.

Looking ahead, a key question to us is whether conditions will be in place for a multi-year series of cuts, as demonstrated in the dot plots or if this cutting cycle could resemble the one in the mid-90s. If we are looking at a 90's style regime, we could see the FOMC done after a few cuts, which is something that would clearly unnerve investors with exposure to fixed income further out the curve. No matter the exact path of rate cuts, it's clear we are moving away from the pre-pandemic period of near zero interest rates, which could ultimately benefit fixed income investors with better income and carry opportunities. The uncertainty of outcomes will continue to drive volatility in markets and could lead to opportunities for active managers to add risk at attractive valuations.

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