FLORIDA PRIME™

Weekly Commentary

AUGUST 5, 2024

Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

Woah, Nelly!

You can bet on just about anything these days, so why not wager on a betting market? We think that's appropriate now for the fed funds futures market. It is calling for too many rate cuts by the Federal Reserve. After last week's Federal Open Market Committee (FOMC) meeting, in which Chair Jerome Powell teed up a cut in September, traders priced in reductions in each of the last three gatherings of the year. The bets increased following the softer labor market report for July the Labor Department released on Friday. It said the U.S. added only 114,000 jobs in July, revised down the May and June tallies by a combined 29,000 and stated that the unemployment rate rose from 4.1% to 4.3%. The markets became more dovish, call for the target range to fall from the current 5.25-5.5% to 4-4.25% by year-end. Doing the math, that mean traders project two of the FOMC meetings to announce 50 basis-point cuts, a magnitude the Fed rarely takes.

This horse must be reined in. The futures market has over-estimated the Fed's proclivity to ease many times in the last few quarters, we think it is doing so again. We agree with it as far as expecting a cut—a quarter-point one—in September, but as of now see only one more coming the rest of the year. We may revise that stance after Powell's address at the Fed's monetary policy symposium in Jackson Hole, Wyo., later in August. But even then, we will trot responsibly even if traders continue to gallop. If this were a race, we are betting our outlook prevails.

G40461-19 (8/24)