# Market Update

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The addition of 303k jobs in March, surpassing expectations, coupled with upward revisions in previous prints, highlights continual job market strength. While average hourly earnings saw solid growth, the unemployment rate remained steady at 3.8%.

Atlanta Fed's GDP is tracking at 2.5% in Q1'24 suggests continue economic expansion, albeit trending lower from previous quarters.

Inflation concerns persist despite the recent PCE Deflator reading at 2.5% signals progress towards combatting inflation but is still above the Fed's target. The solid economic growth and employment situation may limit further downward movement in inflation. Core PCE inflation remains a challenge, with Fed Chair Jerome Powell characterizing it as "still too high." Powell reiterated the Fed's commitment to maximum employment and price stability, indicating a wait-and-see approach.

The FOMC maintained the federal funds rate target range of 5.25%–5.50% during its March 2024 meeting, while signaling intent for three 25-basis-point rate cuts in 2024 to address inflation concerns while supporting economic growth. Economic growth projections for 2024 were revised upwards, reflecting confidence in a solid growth pace. Market reaction to the FOMC meeting was mixed, reflecting anticipation of rate cuts, with futures markets now pricing less than a 50% probability of the first rate cut occurring at the June 2024 meeting and a 2-3 cuts through the end of the year.

We believe the Fed is in a bind. It wants to lower rates but much of the data doesn't support it. The Fed is content to dismiss strong data as noise, while continuing to emphasize likely cuts. It may very well be proven right in the long term. The Fed's clear bias to ease despite inflationary trends – sticky shelter inflation, still elevated wage inflation, and goods deflation fading – implies that the Fed is willing to tolerate some above-target inflation.

Fed easing helps the budget deficit in two ways: lower short-term T-bill rates and rates the Fed pays to banks on excess reserves. As of March 2024, the Fed reported a net loss of $114 billion for 2023, which is the first annual net loss from the Fed in over 100 years, which led to the suspension of remittances to Treasury for the first time ever. Let's hope the desire to cut isn't political in nature.

### FOMC Members Economic Projections

Percent

| Variable | Median | | | | Central Tendency | | | |
|---|---|---|---|---|---|---|---|---|
| | 2024 | 2025 | 2026 | Longer run | 2024 | 2025 | 2026 | Longer run |
| Change in real GDP | 2.1 | 2.0 | 2.0 | 1.8 | 2.0–2.4 | 1.9–2.3 | 1.8–2.1 | 1.7–2.0 |
| December projection | 1.4 | 1.8 | 1.9 | 1.8 | 1.2–1.7 | 1.5–2.0 | 1.8–2.0 | 1.7–2.0 |
| Unemployment rate | 4.0 | 4.1 | 4.0 | 4.1 | 3.9–4.1 | 3.9–4.2 | 3.9–4.3 | 3.8–4.3 |
| December projection | 4.1 | 4.1 | 4.1 | 4.1 | 4.0–4.2 | 4.0–4.2 | 3.9–4.3 | 3.8–4.3 |
| PCE inflation | 2.4 | 2.2 | 2.0 | 2.0 | 2.3–2.7 | 2.1–2.2 | 2.0–2.1 | 2.0 |
| December projection | 2.4 | 2.1 | 2.0 | 2.0 | 2.2–2.5 | 2.0–2.2 | 2.0 | 2.0 |
| Core PCE inflation[4] | 2.6 | 2.2 | 2.0 | | 2.5–2.8 | 2.1–2.3 | 2.0–2.1 | |
| December projection | 2.4 | 2.2 | 2.0 | | 2.4–2.7 | 2.0–2.2 | 2.0–2.1 | |
| Memo: Projected appropriate policy path | | | | | | | | |
| Federal funds rate | 4.6 | 3.9 | 3.1 | 2.6 | 4.6–5.1 | 3.4–4.1 | 2.6–3.4 | 2.5–3.1 |
| December projection | 4.6 | 3.6 | 2.9 | 2.5 | 4.4–4.9 | 3.1–3.9 | 2.5–3.1 | 2.5–3.0 |

Source: Federal Reserve

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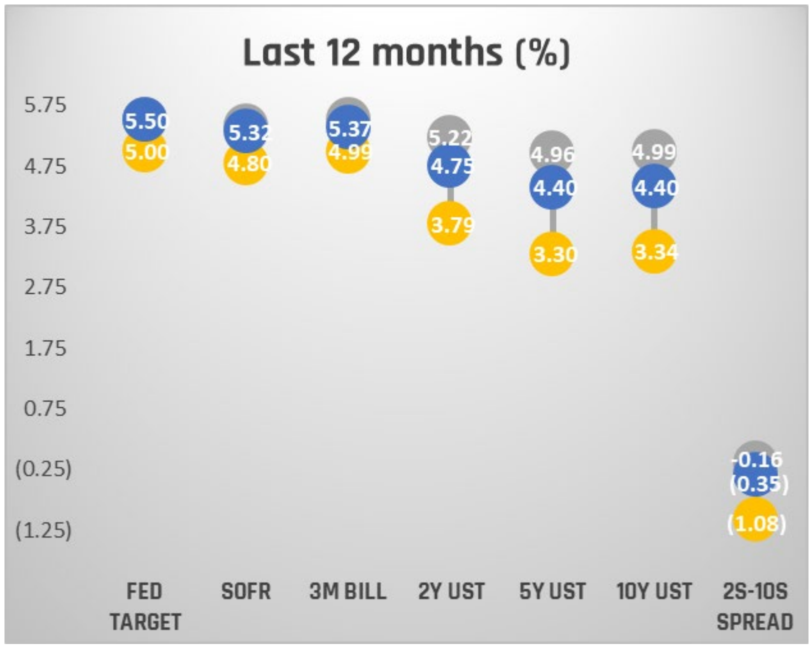
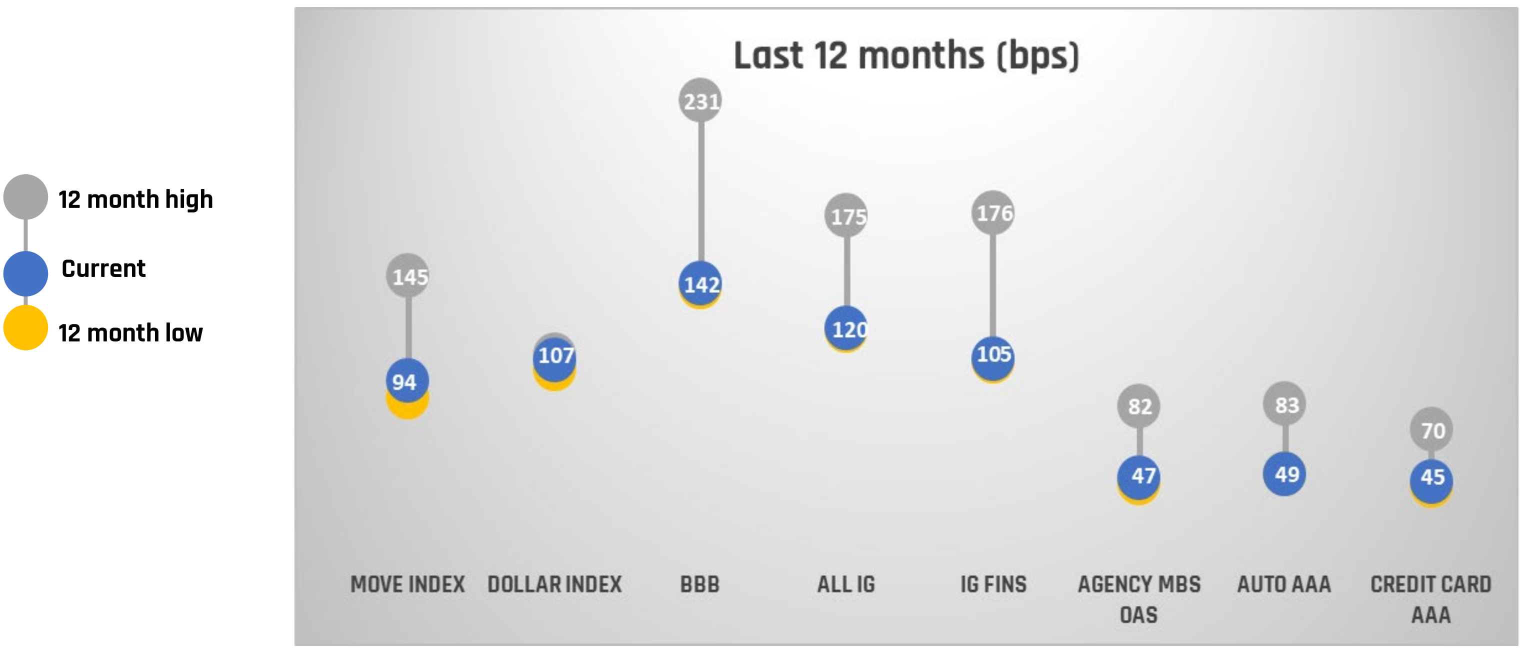
## Product Views

**Rates** – We maintain a neutral stance on rates. However, considering the heightened likelihood of increased volatility, we recommend that investors consider employing a backup in rates to selectively add duration. Treasury yields across the curve are at their highest level since November 2023. In a risk case scenario, various concerning factors such as credit and consumer issues could escalate, amplifying the case for extending duration positions today. Total Money Market assets have surged to record levels, surpassing $6 trillion. As the possibility of Fed easing looms closer, investors should find it advantageous to proactively extend duration in anticipation of lower market rates.

**Credit** – Demand remains robust in the investment-grade sector, with over $150 billion of new supply absorbed in March ‘23. However, caution is warranted in this sector. Additionally, current spreads are at the bottom quartile, and while they may tighten further from this point, we believe the upside potential is limited.

**Securitized** - We maintain our preference for Agency Mortgage-Backed Securities (MBS) as they are poised to act as a buffer in an economic downturn. Furthermore, we anticipate tightening of spreads if the market stabilizes. Presently, OAS levels are closer to median levels compared to other spread assets like corporates, which currently reside in the bottom quartile. Separately, Moody's and Fitch downgraded several Student Loan ABS because of revised cash flow modeling assumptions. Avid consumers of our publication will note this is an asset class that we have been underweight.



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