

AEGON INSIGHTS

March Federal Open Market Committee meeting: After action report

Wednesday's Federal Open Market Committee meeting brought no change in the central bank's interest-rate policy. The Fed kept its benchmark fed-funds rate at 5.25% to 5.5%, a 23-year high and the same level it's been at since July 2023. That wasn't unexpected and the Street focused on the forecasts in the Fed's Summary of Economic Projections (SEP)—including the dot plot maps that show central bank members' expectations for future interest rates—and the press conference after the two-day meeting.

Updating our Fed Call

Our base case is now that the rate-cutting cycle will likely commence in June (we previously expected it to begin in July). And we now expect the Fed will make three rate cuts in 2024 of 25 basis points each. Our previous outlook called for four rate cuts.

This change in the start date has less to do with the need to start 49 days sooner and more to do with updating the sequencing (i.e., switching from sequential cuts to quarterly cuts). So why three quarterly cuts? Given the macro backdrop, the Fed wants to slowly let air out of the restrictive policy balloon on its way to normalization. Sequential cuts are more in response to a concern about growth slowing from monetary policy staying restrictive for too long.

Cruising speed .. forever

That's basically what the Fed's SEP forecasts imply: Growth above 2% as far as the eye can see. Ironically, this is above policymakers' own forecast for trend growth, making one question the need to cut rates at all. (I say that half in jest, as I recognize that there is some interplay of lower rates on the Fed's updated optimistic forecast). In short, the Fed's forecast picture is about as perfect as one could paint. This new forecast is the catalyst for the shallower rate path in coming years (2025 and 2026).



Frank Rybinski, CFA
Head of
Macro Strategy

Frank Rybinski, CFA, is head of macro strategy responsible for guiding the firm's global macroeconomic view as it pertains to tactical and strategic asset allocation. This includes analysis of the economy, interest rates, and the relative value between asset classes. In this capacity, Frank frequently appears in leading financial media outlets like Bloomberg, CNBC, Fox Business and the Wall Street Journal. Prior to his current role, Frank was a credit strategist for UBS Investment Bank. Prior to that, he worked as an analyst for ZT Zurich Trust in Zurich, Switzerland. Frank began his career as a trader for Spear, Leeds & Kellogg and held a similar position at The Royal Bank of Scotland. He has been in the industry since 1996 and started with the firm in 2008. Frank received his BA in economics from Boston College. He is a CFA® charterholder.

Inflation – Spotlight on the spring data

Federal Reserve Chairman Powell's views align with our [assessment](#) that the January and February inflation data represent pockets of turbulence on the dis-inflationary path.

This does put a much higher bar on the inflation reports that come out this spring before the Fed's June meeting (three consumer price index reports and two personal consumption expenditures reports). If there isn't a slowdown from the January and February readings, then, in the immortal words of Apollo 13: "Houston, we have a problem."

Aegon AM Economic Forecasts

	2021	2022	2023	2024e	2025e
GDP (real %, year over year)	5.8	1.9	2.4	1.8	1.7
Unemployment (%)	5.4	3.6	3.7	4.0	4.1
Core PCE (% year over year)	3.2	5.2	4.2	2.4	2.2
Fed funds: Upper bound	0.25	4.50	5.50	4.75	3.75
10-year Treasury	1.51	3.88	3.88	4.00	4.00

As of March 21, 2024.

About us

We are active global investors. In a complex world we think and act across traditional boundaries. We organize our teams globally by asset class, to bring the breadth and depth of our investment and research capabilities together for clients across the world. We call it investing beyond borders.

Disclosures

This material is provided by Aegon Asset Management (Aegon AM) as general information and is intended exclusively for institutional and wholesale investors, as well as professional clients (as defined by local laws and regulation) and other Aegon AM stakeholders.

This document is for informational purposes only in connection with the marketing and advertising of products and services, and is not investment research, advice or a recommendation. It shall not constitute an offer to sell or the solicitation to buy any investment nor shall any offer of products or services be made to any person in any jurisdiction where unlawful or unauthorized. Any opinions, estimates, or forecasts expressed are the current views of the author(s) at the time of publication and are subject to change without notice. The research taken into account in this document may or may not have been used for or be consistent with all Aegon AM investment strategies. References to securities, asset classes and financial markets are included for illustrative purposes only and should not be relied upon to assist or inform the making of any investment decisions. It has not been prepared in accordance with any legal requirements designed to promote the independence of investment research, and may have been acted upon by Aegon AM and Aegon AM staff for their own purposes.

The information contained in this material does not take into account any investor's investment objectives, particular needs, or financial situation. It should not be considered a comprehensive statement on any matter and should not be relied upon as such. Nothing in this material constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to any particular investor. Reliance upon information in this material is at the sole discretion of the recipient. Investors should consult their investment professional prior to making an investment decision. Aegon Asset Management is under no obligation, expressed or implied, to update the information contained herein. Neither Aegon Asset Management nor any of its affiliated entities are undertaking to provide impartial investment advice or give advice in a fiduciary capacity for purposes of any applicable US federal or state law or regulation. By receiving this communication, you agree with the intended purpose described above.

Past performance is not a guide to future performance. All investments contain risk and may lose value. This document contains "forward-looking statements" which are based on Aegon AM's beliefs, as well as on a number of assumptions concerning future events, based on information currently available. These statements involve certain risks, uncertainties and assumptions which are difficult to predict.

Consequently, such statements cannot be guarantees of future performance, and actual outcomes and returns may differ materially from statements set forth herein.

The following Aegon affiliates are collectively referred to herein as Aegon Asset Management: Aegon USA Investment Management, LLC (Aegon AM US), Aegon USA Realty Advisors, LLC (Aegon RA), Aegon Asset Management UK plc (Aegon AM UK), and Aegon Investment Management B.V.

(Aegon AM NL). Each of these Aegon Asset Management entities is a wholly owned subsidiary of Aegon Ltd. In addition, Aegon Private Fund Management (Shanghai) Co., a partially owned affiliate, may also conduct certain business activities under the Aegon Asset Management brand.

Aegon AM UK is authorised and regulated by the Financial Conduct Authority (FRN: 144267) and is additionally a registered investment adviser with the United States (US) Securities and Exchange Commission (SEC). Aegon AM US and Aegon RA are both US SEC registered investment advisers.

Aegon AM NL is registered with the Netherlands Authority for the Financial Markets as a licensed fund management company and on the basis of its fund management license is also authorized to provide individual portfolio management and advisory services in certain jurisdictions. Aegon AM NL has also entered into a participating affiliate arrangement with Aegon AM US. Aegon Private Fund Management (Shanghai) Co., Ltd is regulated by the China Securities Regulatory Commission (CSRC) and the Asset Management Association of China (AMAC) for Qualified Investors only. The content has not been reviewed or endorsed by any regulatory authority in China.

In Taiwan, neither Aegon AM nor any of its affiliates are registered and may not sell, issue, or offer any products or services while in Taiwan. Marketing is intended for Professional Institutional investors only and the contents have not been reviewed or endorsed by any regulatory authority in Taiwan. The content contained is for information purpose only. Taiwan residents are advised to exercise caution in relation to the proposal. If you are in any doubt about any of the contents of this marketing, you should obtain independent professional advice.

©2024 Aegon Asset Management or its affiliates. All rights reserved.

Adtrax: 6499678.1GBL