Monday, March 25, 2024

SUMMARY-

I. Fed leaves rates unchanged but reconfirms plans for cuts.

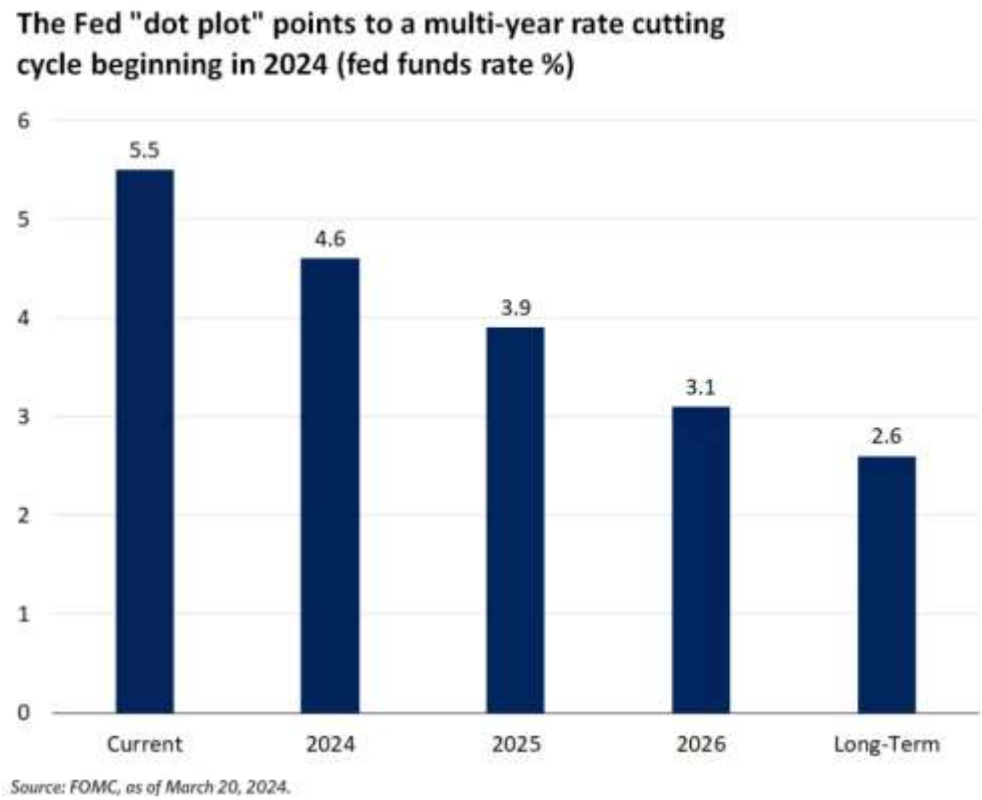
II. Chairman Powell upgrades growth projections on the verge of long-term easing cycle.

III. Stocks stage broad-based rally in response to Fed stance, reversing 2-week decline.

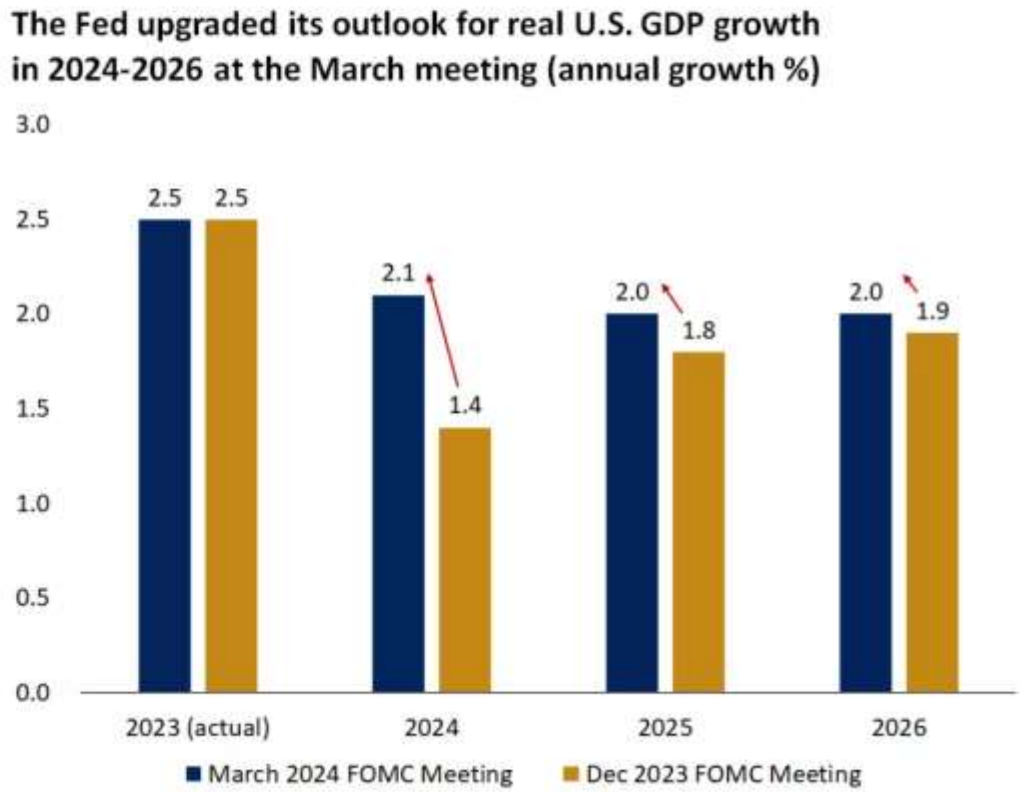
IV. Money market balances declining as assets shift for better returns.

Good morning:

After two consecutive months of slightly hotter than expected inflation data, markets were concerned that the Fed would maintain its outlook for rate cuts this year at last week's FOMC meeting and press conference. However, while leaving rates alone this month as expected, Chairman Powell noted that the Fed sees "inflation coming gradually down to 2% on a sometimes-bumpy path." These remarks, along with the Fed reconfirming its "dot plot" projection of three cuts in 2024 as the beginning of a long and gradual easing cycle that will bring the fed funds rate to 3.1% by 2026 were more than enough to ease equity traders' apprehension. In response, stocks rallied further into record territory with major large cap averages posting gains of 2-3% on the week.

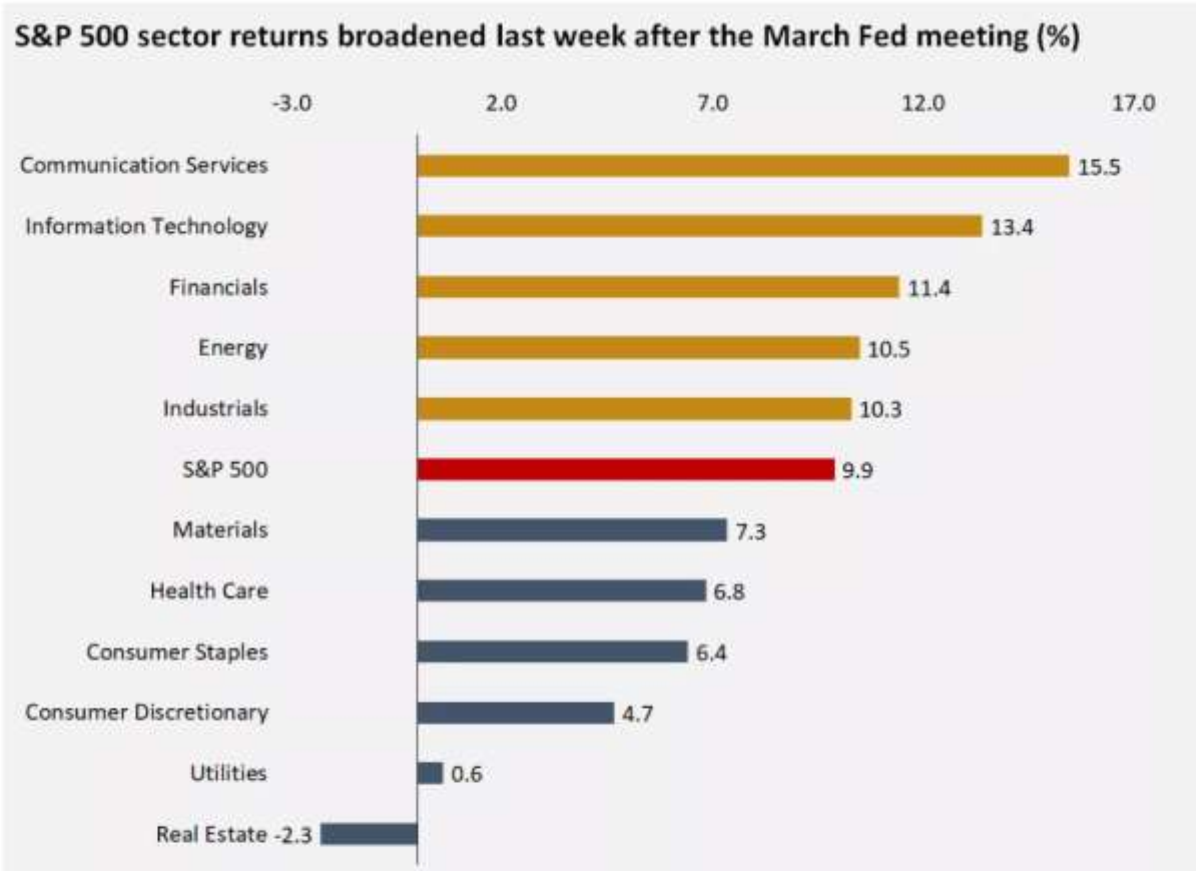


Stronger than expected economic activity also prompted the Fed to upgrade its outlook for growth. After previously lowering their 2024 GDP forecast to 1.4% at the December meeting, the Fed has now revised its forecast to a healthier 2.1% growth rate for this year. Confirming the "soft landing" scenario remains intact, Powell stated, "The economy is strong, the labor market is strong, and inflation has come way down." With a near-term recession seemingly off the table, the formal acknowledgement by the Fed that inflation's trajectory and their upcoming rate cutting plans remain in place (despite recent reports) provides a fundamentally positive backdrop for equities to potentially continue to outperform other asset classes.



Source: FOMC, as of March 20, 2024.

As we have continued to highlight this year, last week's rally on the Fed's dovish remarks was far broader in its scope than the narrow market moves higher seen last year. In addition to small and mid-cap indices outperforming the S&P 500 after Wednesday's FOMC meeting, cyclical sectors like financials, energy, and industrials also continued to show strength. Many asset managers have acknowledged the historical price disparities that still exist between many areas of the equity market. We agree and believe that this year's broadening out of performance is a necessary component to any healthy bull market.



Source: FactSet, year-to-date S&P 500 GICS sector returns.

Whether it's excitement surrounding artificial intelligence (A.I.), undervalued sectors playing catch-up, or a multi-year rate cutting campaign on the horizon, investors have a lot of reasons to feel optimistic. Of course, new issues and concerns can always arise and prompt a short-term pause or pullback in a bull market. However, if the key themes remain, selloffs in the stock market will likely continue to be bought. The safe-haven asset class of "cash alternatives" like money market funds should see their yields track lower in response to the Fed's predicted rate cuts over the next few years. While there is still over $6 trillion in money market funds currently, last week's net decline of nearly $62 billion suggests that capital is being redeployed into asset classes expected to deliver better returns in the future.

Assets of Money Market Funds

Billions of dollars

	3/20/2024	3/13/2024	$ Change*	3/6/2024
Government	4,905.90	4,971.99	-66.09	4,937.69
Retail	1,541.25	1,536.74	4.51	1,533.25
Institutional	3,364.65	3,435.25	-70.60	3,404.44
Prime	1,019.44	1,016.16	3.27	1,019.49
Retail	748.27	744.16	4.11	740.23
Institutional	271.17	272.00	-0.84	279.26
Tax-exempt	121.20	120.28	0.91	119.92
Retail	110.09	109.50	0.60	109.08
Institutional	11.10	10.79	0.32	10.84
Total	**6,046.53**	**6,108.43**	**-61.90**	**6,077.10**
Retail	**2,399.61**	**2,390.39**	**9.21**	**2,382.56**
Institutional	**3,646.93**	**3,718.04**	**-71.11**	**3,694.54**

Source: ICI Investment Company Institute

Markets will try to extend last week's rally as we start this holiday-shorted trading week. In addition to various economic reports early this week, the most important figures will be released on Friday when markets are closed for the Good Friday holiday when the February Personal Consumption Expenditures (PCE) price index is reported. This report contains "core" PCE inflation, the Fed's preferred measure, which is expected to show monthly price increases moderated from the prior month. If they do, it could validate Powell's position that inflation is continues to decline, although not always in a straight line, and provide further tailwind for stocks next week when markets reopen.

Have a great week and a very happy Easter!

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