

Fed Chair Powell finally made his much-anticipated “pivot” at the close of the Fed’s two-day December meeting, saying he sees short-term rates heading lower next year. Perhaps much lower.

Surprised but excited, the financial markets rallied on the Fed’s policy pivot. But market watchers know the hard part comes next—how to position portfolios in a falling rate environment.

For much of 2023, the financial markets had anticipated the Fed would drop rates in 2024. The table below was from October 2023, when market watchers anticipated two rate cuts in 2024. But two weeks later, at its November meeting, Powell said the Fed had no interest in cutting rates anytime soon.

“The fact is, the committee is not thinking about rate cuts right now at all,” said Powell at the press conference in November.

The Fed Pivots on Rates

Since mid-2023, market participants anticipated the Fed would drop rates in 2024. The Fed finally agreed. The table below was from October 12, 2023.

Powell & Crew move to a dovish stance.

FOMC Meeting Date	4.0% - 4.25%	4.25% - 4.5%	4.5% - 4.75%	4.75% - 5%	5% - 5.25%	5.25% - 5.5%	5.5% - 5.75%	5.75% - 6%
11/1/2023	0%	0%	0%	0%	0%	89.4%	10.6%	0%
12/13/2023	0%	0%	0%	0%	0%	61.8%	34.9%	3.3%
1/31/2024	0%	0%	0%	0%	0%	60.6%	35.5%	3.9%
3/20/2024	0%	0%	0%	0%	13.3%	55%	28.5%	3.1%
5/1/2024	0%	0%	0%	5.5%	30.6%	44.1%	18%	1.8%
6/12/2024	0%	0%	2.1%	15.3%	35.8%	33.9%	11.7%	1.1%
7/31/2024	0%	1.2%	9.2%	26.3%	34.8%	22%	6%	0.5%
9/18/2024	0.6%	5.5%	18.4%	30.9%	27.9%	13.4%	3.1%	0.2%
11/7/2024	3%	11.9%	24.6%	29.4%	20.7%	8.3%	1.7%	0.1%

The CME Group publishes a table that shows the probability of the Federal Funds Rate’s level by the FOMC’s scheduled meeting dates. The blue highlights show the highest probability, by meeting date.

The CME Group’s table changes on a daily basis. Probabilities are based on assumptions and subject to revisions. Financial, economic, political, and regulatory issues may cause the actual results to differ from the expectations expressed in the table. The data and output from this tool does not constitute investment advice and is not a personal recommendation from CME Group. Any investment activities based on this table are at the sole risk of the investor. Partial table shown for illustrative purposes.

Source: CME Group, October 12, 2023

So, what happened to “higher for longer?” What changed in six weeks? From the Fed’s perspective, a lot.

In the table below, take a look at some of the Fed’s 2024 projections and beyond. For Core Personal Consumption Expenditures, the Fed now sees it falling to 2.4% in 2024, down from 3.2% in 2023. The Fed also sees Fed Funds at 4.6% by the end of 2024. But that’s the median forecast. At least one Fed voting member sees 3.9%. So the Fed funds could be much lower than today’s rate of 5.25%-5.5%.

Fed Projections

The Fed revised lower its outlook for inflation and anticipates several rate cuts in 2024 and beyond.

Variable	Median			
	2023	2024	2025	2026
Change in Real GDP	2.6%	1.4%	1.8%	1.9%
-September projection	2.1%	1.5	1.8%	1.8%
PCE Inflation	2.8%	2.4%	2.1%	2%
-September projection	3.3%	2.5%	2.2%	2%
Core CPE inflation	3.2%	2.4%	2.2%	2%
-September projection	3.7%	2.6%	2.3%	2%
Federal funds rate	5.4%	4.6%	3.6%	2.9%
-September projection	5.6%	5.1%	3.9%	2.9%

Big drop in inflation projections

Also a big drop in the rate outlook

The Fed’s forecasts are based on assumptions and are subject to revisions over time. Financial, economic, political, and regulatory issues may cause the actual results to differ from the expectations expressed in the forecast.

Judging from the Fed’s outlook, it appears that we are entering a transition period that will lead to lower rates. But nothing is certain until the Fed acts. If rates do start to trend lower next year, I will be evaluating portfolios to determine if any adjustments are needed for the new interest rate environment.

Enjoy the holiday season!



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