GLOBAL X INSIGHTS

Portfolio Positioning for Lower Rates

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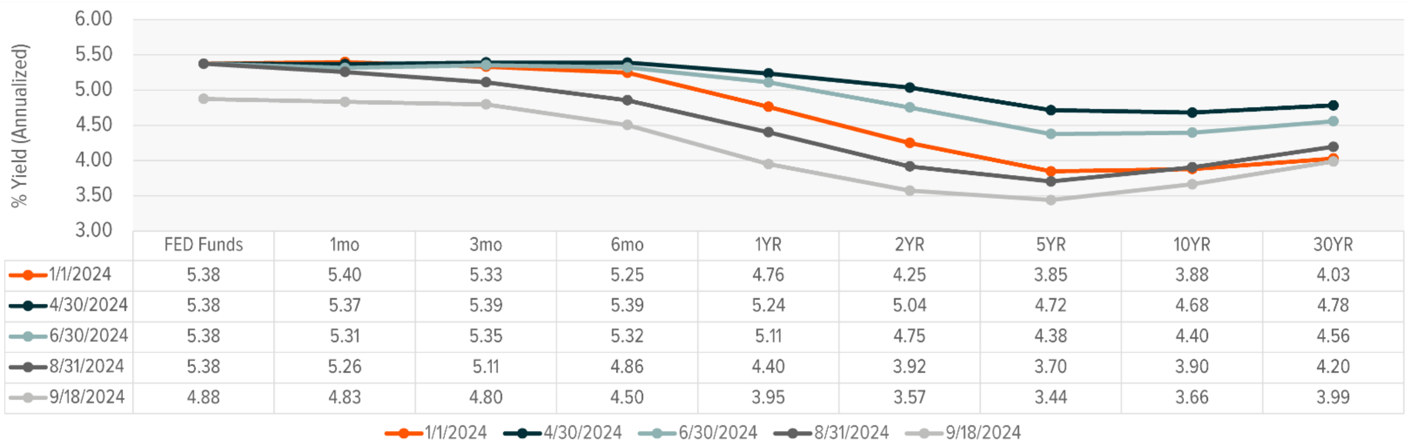
Date: September 18, 2024
Topic: Macroeconomic

Markets were mixed at the start of the Federal Reserve's (Fed) long-awaited shift to reduce policy interest rates. After leaving rates unchanged at 5.25-5.50% for 14 months, the Federal Reserve cut rates by 50 basis points (bps) at their September FOMC meeting. While markets fully anticipated an interest rate reduction, debate circulated about its magnitude and what this means for the economy and markets. While 50 bps was an aggressive start to the rate cutting cycle, we believe the U.S. economy remains resilient and moderating real yields are beneficial for markets. Going forward, we believe the Fed has room to reduce interest rates slowly.

U.S. YIELD CURVE - COMPARATIVE ANALYSIS

Source: Bloomberg data of 9/18/2024



	FED Funds	1mo	3mo	6mo	1YR	2YR	5YR	10YR	30YR
1/1/2024	5.38	5.40	5.33	5.25	4.76	4.25	3.85	3.88	4.03
4/30/2024	5.38	5.37	5.39	5.39	5.24	5.04	4.72	4.68	4.78
6/30/2024	5.38	5.31	5.35	5.32	5.11	4.75	4.38	4.40	4.56
8/31/2024	5.38	5.26	5.11	4.86	4.40	3.92	3.70	3.90	4.20
9/18/2024	4.88	4.83	4.80	4.50	3.95	3.57	3.44	3.66	3.99

The yield curve flattened meaningfully in Q3 as the short end of the curve priced in an aggressive start to rate reductions. The long end moved lower but remains sensitive to the economic environment. The recent deterioration in economic data shifted the emphasis from inflation risk to economic risk. While recent labor market data came in below expectations, they remain at a healthy level. The Fed's updated economic projections reflected a slight deterioration in economic expectations, with unemployment expectations revised up while inflation expectations improved. The updated dot plot reflected a total of 100bps of rate cuts for 2024 and another 100bps of cuts through 2025.

Overall, given the robust economic fundamentals, we believe the path ahead may be slow and steady but ultimately point toward a soft landing. While inflation is moving toward the Fed's target, we expect the Fed to remain vigilant, ensuring they don't loosen monetary policy too early or too quickly. From a portfolio positioning standpoint, we believe this is the time to start redeploying cash and that equities are better positioned than fixed income. We are not currently expecting a meaningful reduction in the long end of the curve, potentially constraining fixed income's gains. Conversely, equities stand to benefit from moderating interest rates while economic growth remains intact. We expect improved market breadth through the rest of the year as this economic climate is typically good for small-cap and cyclical stocks.

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