

The Fed and Liquidity Markets: The Year Begins With Cautious Optimism

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Disinflation ongoing but uneven

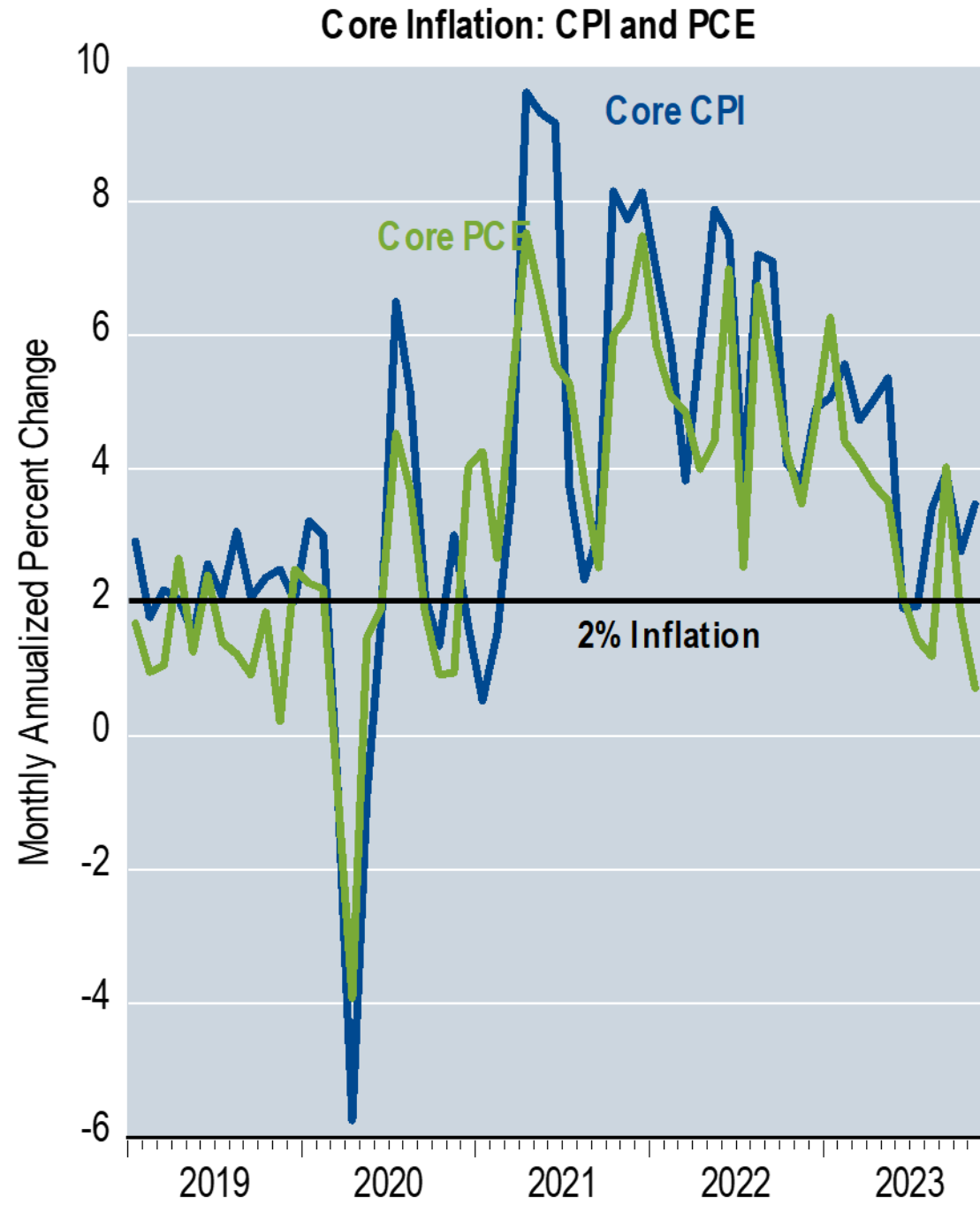
Central banks will ease policy to normalize real interest rates

Economy has remained resilient, but is set to slow

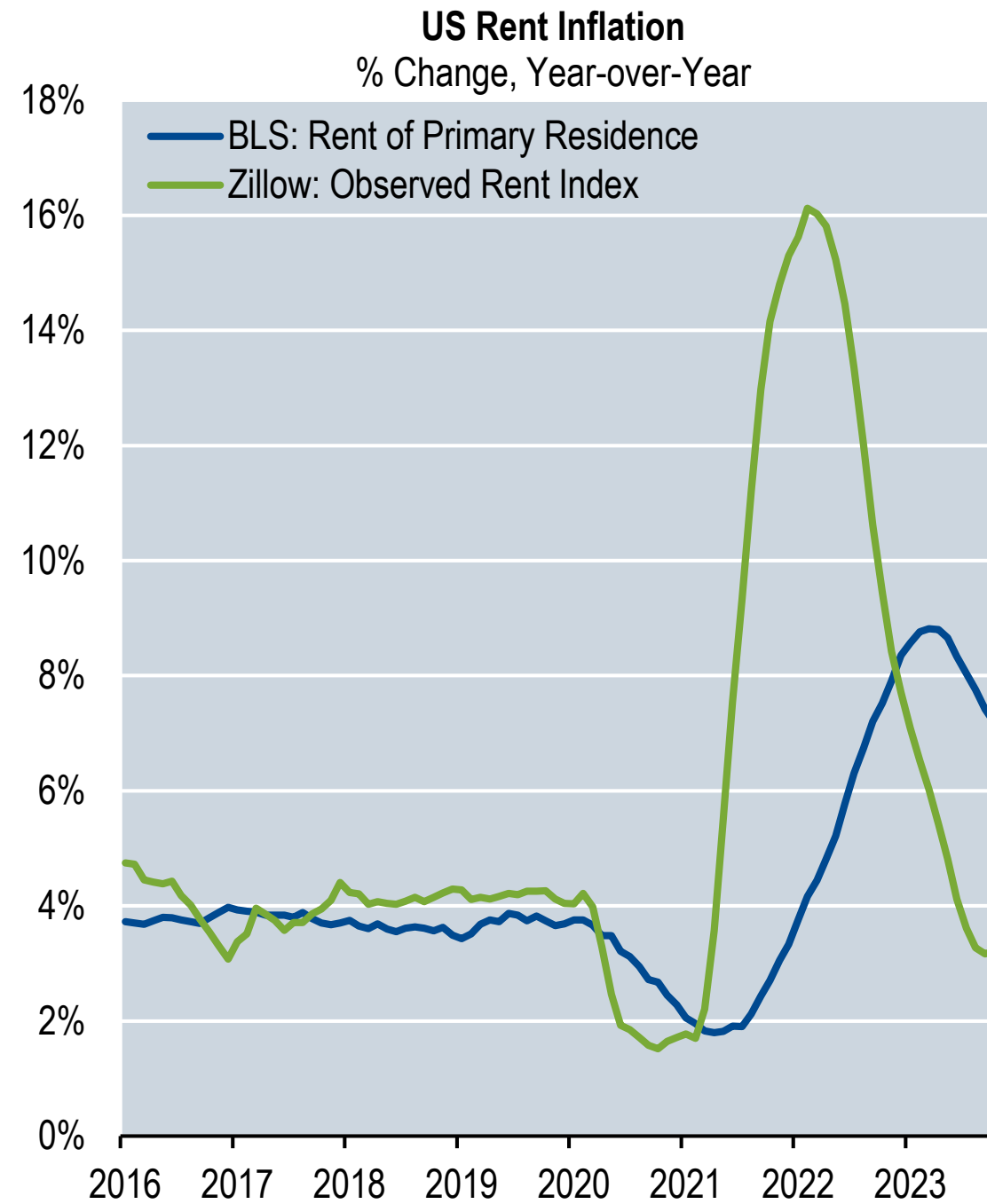
Fixed-income outlook

- US growth will slow but should avoid recession
- Global growth has downshifted and China is now a source of deflation
- US Core PCE already near Fed target
- Global inflation will continue to recede
- The US dollar will weaken moderately
- Emerging markets—particularly in Latin America—should outperform
- Central Banks will need to pivot policy adroitly
- Spread sectors are still attractive but the outlook is clouded by macro risk
- Geopolitical uncertainty continues to add to volatility

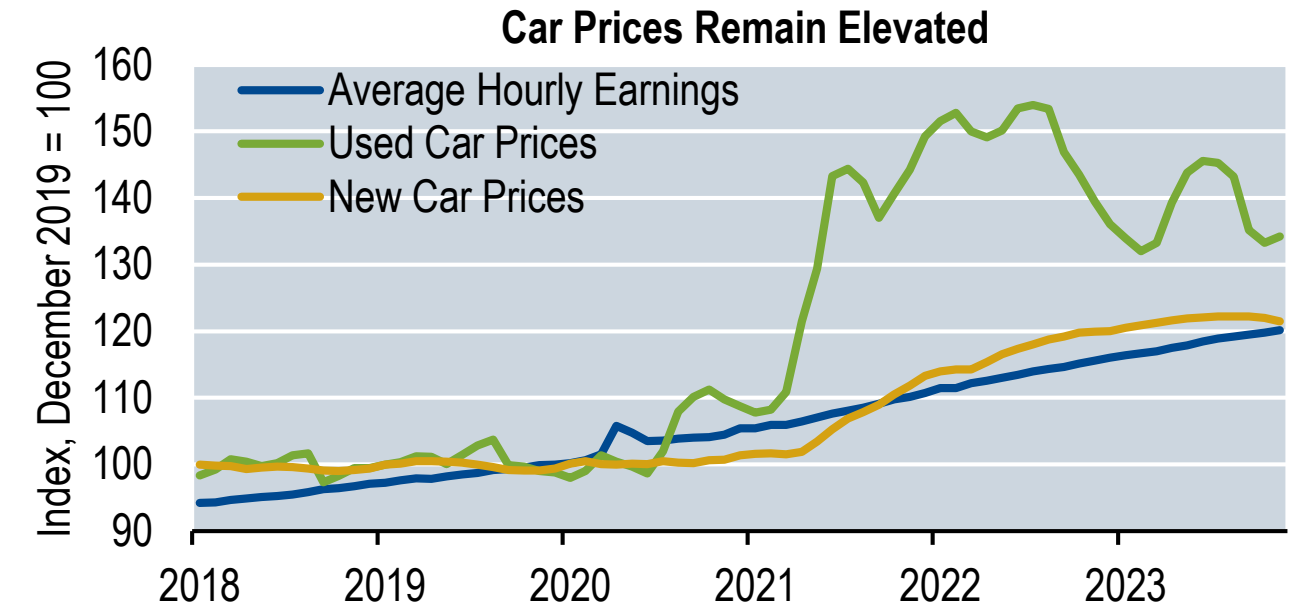
Real Progress on Inflation With More to Come



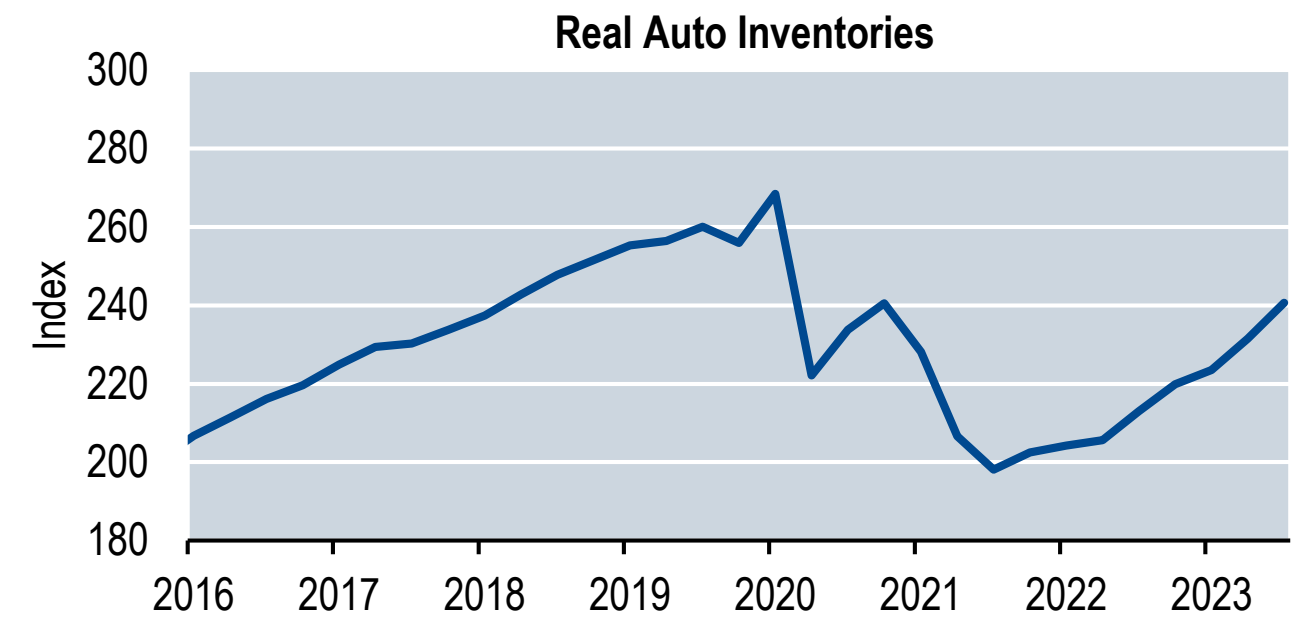
Source: Bureau of Labor Statistics, Bureau of Economic Analysis, JP Morgan
As of 30 Nov 23



Source: Bureau of Labor Statistics, Haver Analytics, Zillow. As of 30 Nov 23



Source: Bureau of Labor Statistics, Haver Analytics. As of 30 Nov 23



Source: Federal Reserve. As of 30 Jun 23

US Growth Moderation Likely to Continue

Tight Credit Conditions

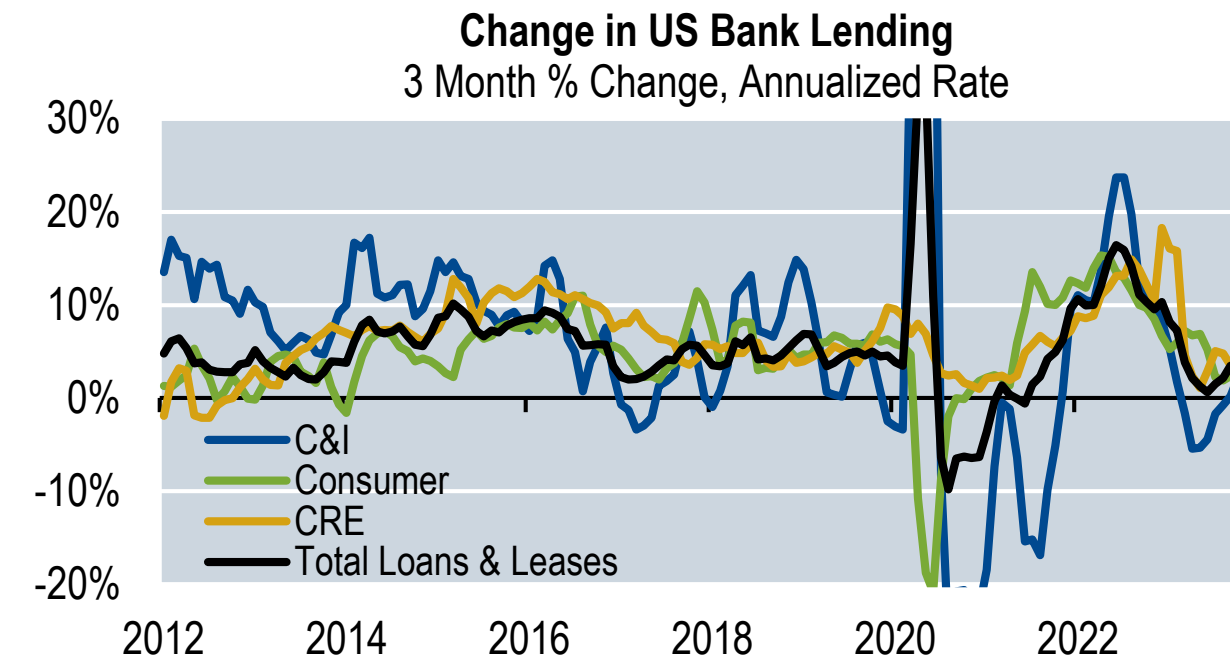
Savings Rate Likely to Rise

High Interest Rates Deter Investment

- Especially in Housing and Manufacturing

Fiscal Impulse a (Small) Drag

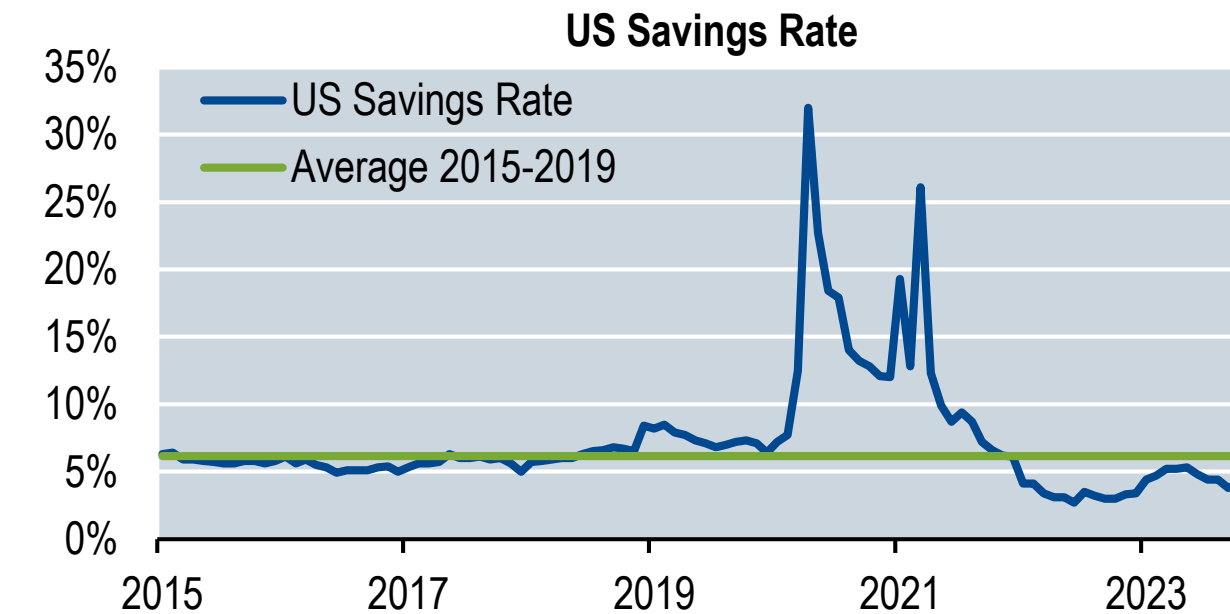
Reopening in Leisure/Hospitality Finished?



Source: Federal Reserve, Haver Analytics. As of 30 Nov 23

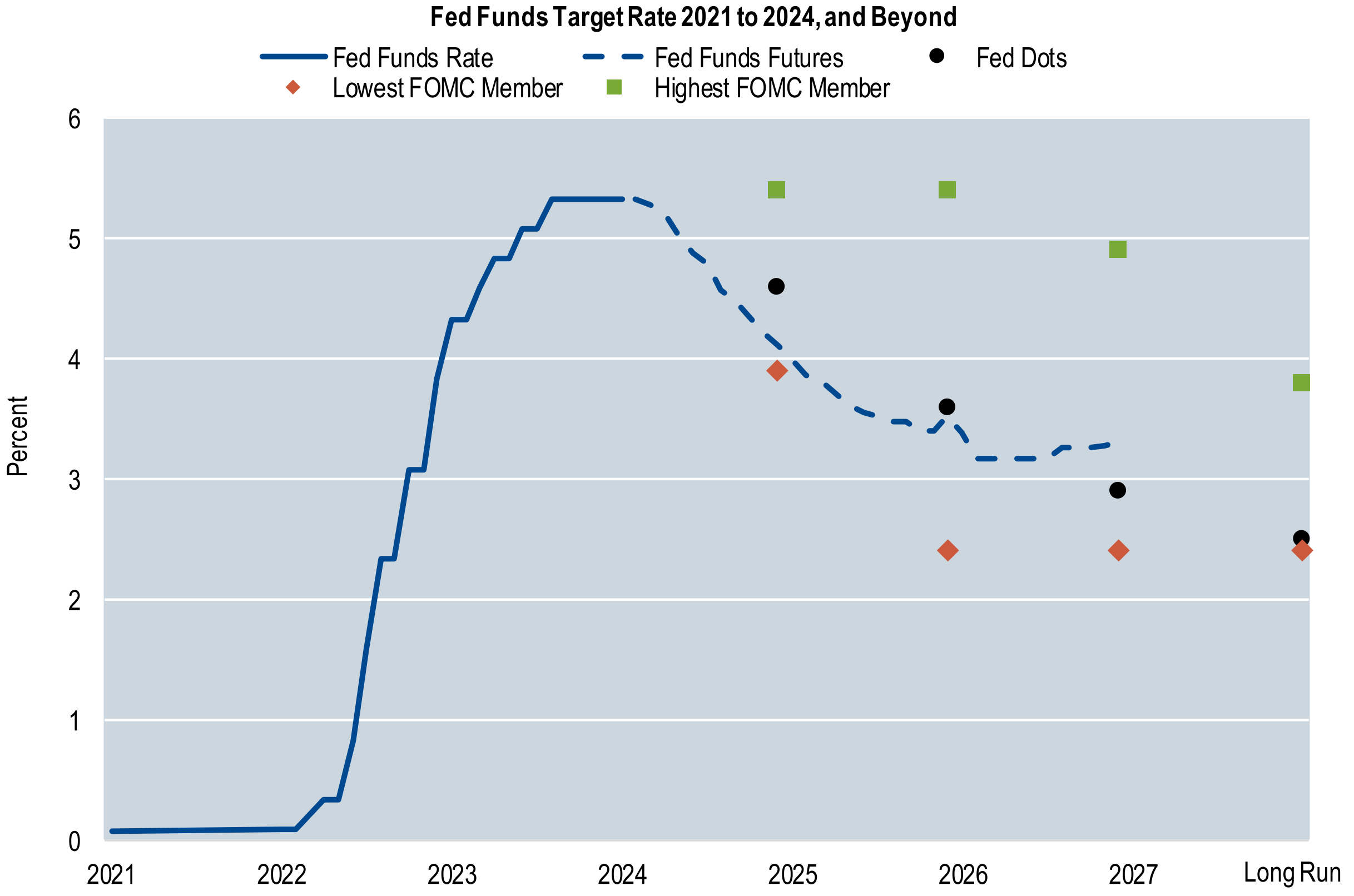


Source: Bloomberg. As of 09 Jan 24



Source: Bureau of Economic Analysis, Haver Analytics. As of 30 Nov 23

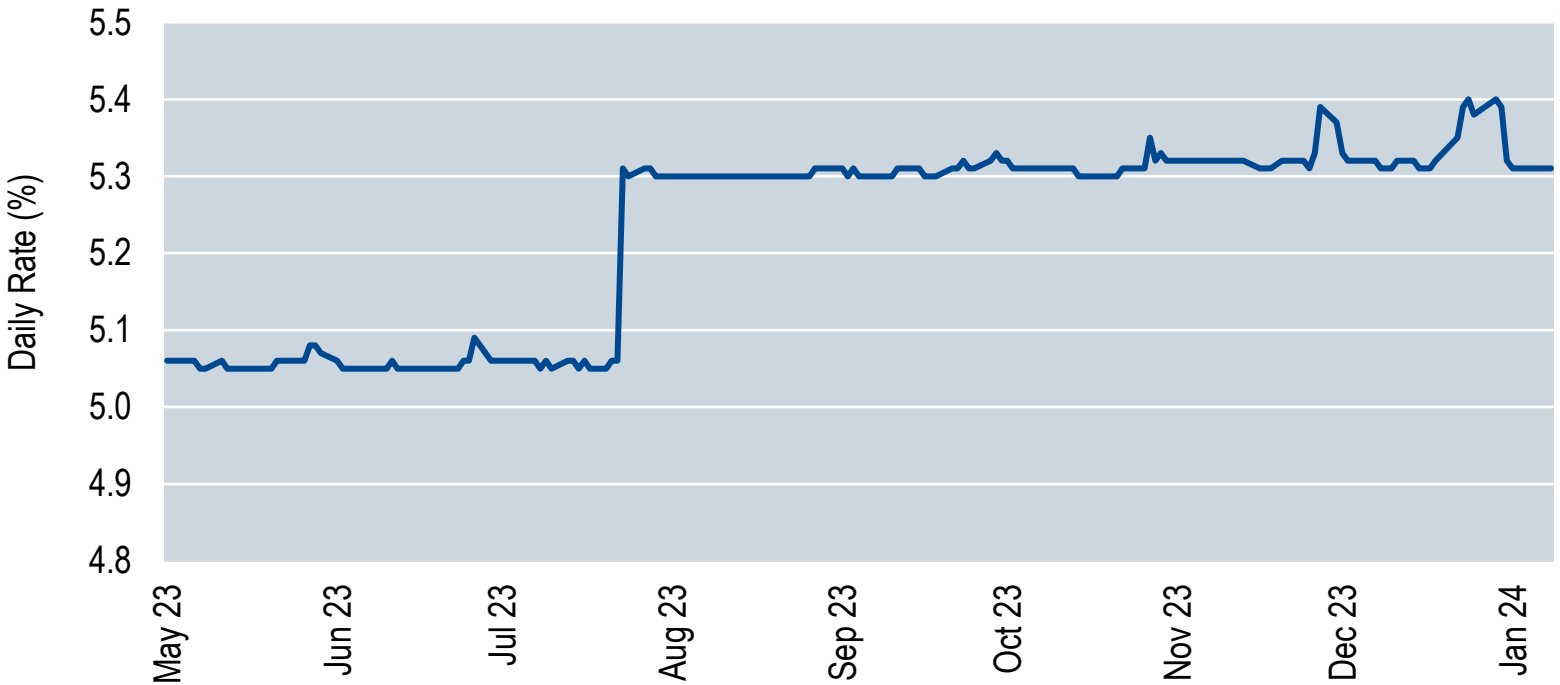
Rate Cuts Are Coming, But Is March Too Soon?



Source: Bloomberg, Federal Reserve Summary of Economic Projections. As of 19 Jan 24

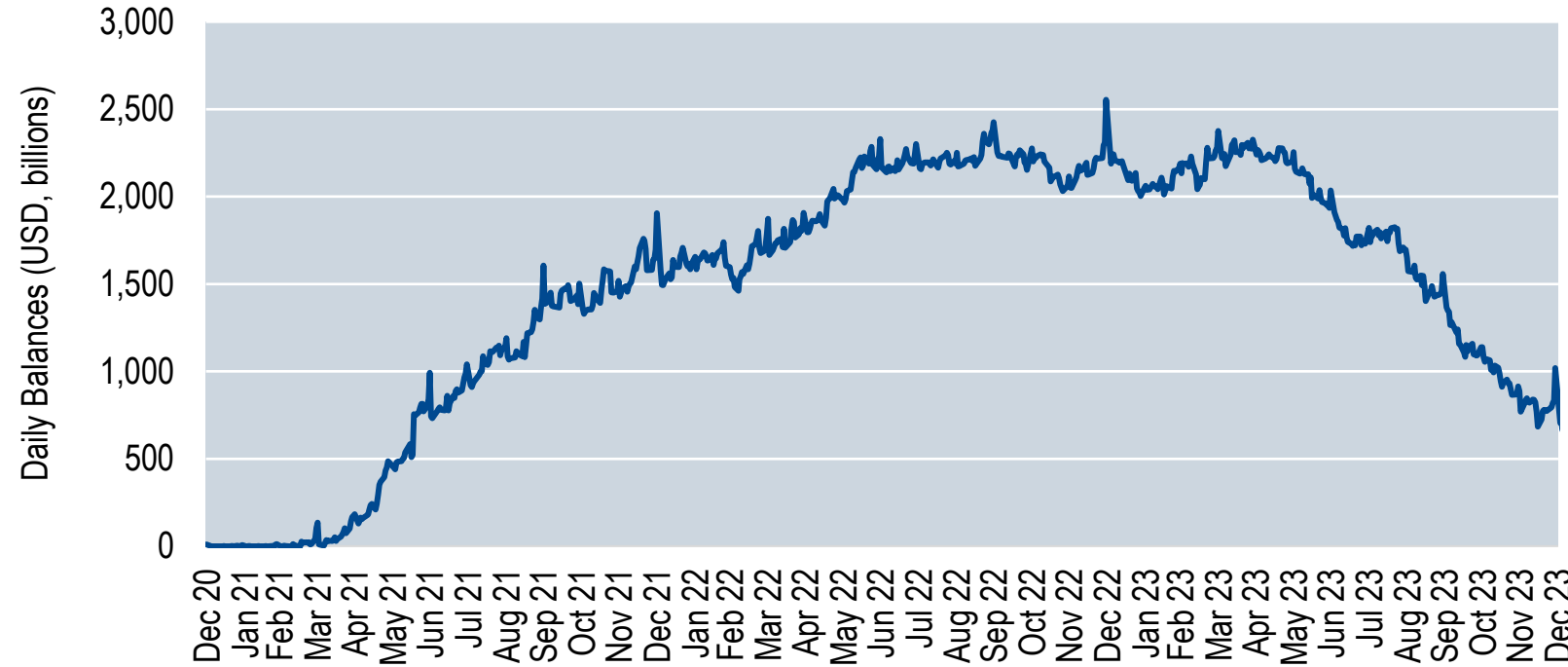
SOFR, the RRP, the Fed's Balance Sheet and Banking Reserves

Secured Overnight Financing Rate



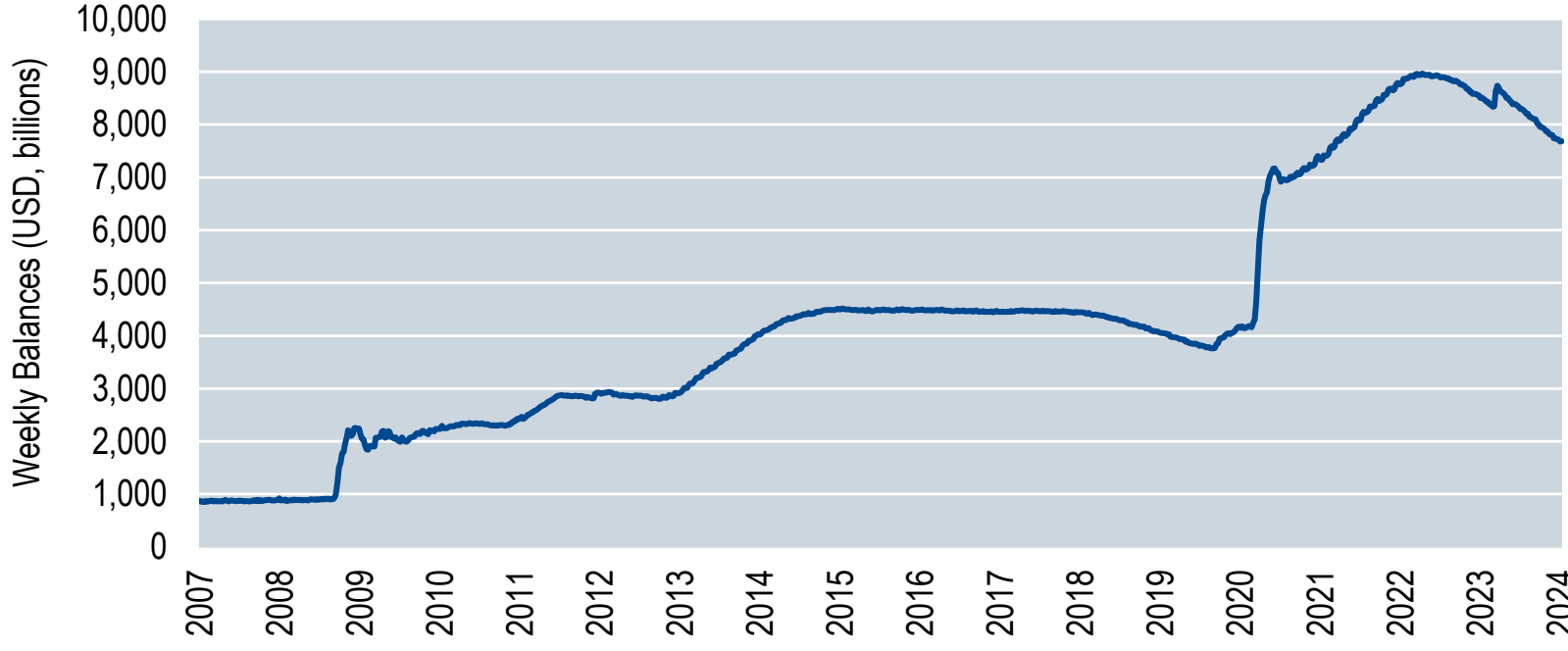
Source: Federal Reserve Bank of New York. As of 12 Jan 24

Reverse Repurchase Facility



Source: Federal Reserve Bank of New York. As of 31 Dec 23

Federal Reserve Total Assets



Source: Federal Reserve. As of 10 Jan 24

US Banking Reserve Balances with Federal Reserve Banks



Source: Federal Reserve Bank of New York. As of 31 Dec 23



Peak Policy Rates Are Historically Good For Fixed-Income Returns

Date of Last Hike	Cummulative Amount of Hikes in Cycle	Fed Funds Rate after Last Hike	1 Year Cumulative Returns Beginning the Date of the Last Hike		2 Year Cumulative Returns Beginning the Date of the Last Hike	
			Agg	3 Month T-Bill	Agg	3 Month T-Bill
01 Feb 95	3.00%	6.00%	17.1%	6.0%	21.0%	11.6%
16 May 00	1.75%	6.50%	13.7%	6.2%	22.4%	9.3%
29 Jun 06	4.25%	5.25%	6.5%	5.2%	14.0%	9.1%
19 Dec 18	2.25%	2.50%	8.8%	2.3%	16.7%	3.0%

Assumed Date of Last Hike	Cummulative Amount of Hikes in Cycle	Fed Funds Rate after Last Hike	Returns from 26 Jul 23 to 19 Jan 24	
			Agg	3 Month T-Bill
26 Jul 23	5.25%	5.50%	1.7%	2.7%

Source: Bloomberg, ICE BofA, Federal Reserve



Thank you.

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