The FOMC has a greater degree of confidence about the convergence of inflation to the target; in our view, this year's Fed pivot is closer now than at any point before (UBS).

CIO First Take: Fed still on track for a September cut

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In his most recent press conference, Fed Chair Jerome Powell stated that the economy is moving to the point in which “it will be appropriate to dial back restriction.”

In the latest Fed meeting, the Federal Open Market Committee (FOMC) decided to leave the policy rate unchanged at its current level of 5.25-5.50%. This was in line with market expectations and reflects the Fed's cautious approach as it monitors economic indicators and inflation trends.

During the subsequent press conference, Fed Chair Jerome Powell expressed confidence that inflation is converging toward the Fed's target. Powell underlined that there is strong agreement within the FOMC that, assuming that incoming data remains favorable, a discussion about reducing the Fed Funds rate could be on the table as soon as the September meeting.

As usual, Powell underscored the FOMC's commitment to balancing the dual mandate of full employment and inflation control, and highlighted that policymakers consider a sudden deterioration in economic activity as unlikely.

CIO's Senior US Economist, Brian Rose, noted that the FOMC appears to see the labor market as back in balance. In this context, Brian clarified that it is becoming clear for policymakers that if financial conditions are not eased soon “then the labor market may soften further,” which would pose downside risks to the economic outlook.

In summary, while the Fed has opted to hold rates steady for now, the door remains open for a potential rate cut in September, provided the economic data supports such a move. We believe investors and analysts should be vigilant regarding upcoming data releases, as these will play a crucial role in shaping the Fed's near-term moves. In CIO, we stand by our base case that the FOMC will cut the policy rate by a total of 50bps in 2024, with the first easing move at the September meeting.

Bottom line: Position for lower rates

In our view, investors with allocations in cash or money market funds (or those with expiring fixed-term deposits) should use the liquidity to fund positions in high-quality bonds and capture the capital gain upside that will materialize when the decline in yields takes place. Among US fixed income products, we are most preferred in Investment Grade (IG) corporates, agency MBS, and AAA rated CMBS.

For more, listen to: CIO First Take: July FOMC meeting

Join **Jason Draho**, Head of Asset Allocation Americas, and **Brian Rose**, Senior US Economist, for thoughts and reflections on the outcome of the July FOMC meeting. Jason also speaks to the market response, and shares CIO's positioning recommendations. Host: **Daniel Cassidy**

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Important information