Ultimately, the Fed will base policy on incoming data, which CIO believes will continue to weaken. (UBS)

Don’t overstate the impact of the Fed’s dot plot

17 June 2024, 4:50 pm CEST, written by UBS Editorial Team

Current returns on cash will not be available for much longer. Investors should consider managing their liquidity through bond ladders, structured investment strategies with capital preservation features, or balanced equity-bond portfolios.

Just hours after the release of the positive inflation data, the Fed dented market optimism over the pace of rate cuts. While the Fed’s decision not to ease policy at last week’s meeting had been widely expected, the major focus was on the dot plot, which charts the interest rate projections of top policymakers. This was more hawkish than expected, with the median dot now pointing to just one rate cut by year-end, down from three rate cuts in March, when the last projections were published. The Fed also revised up its forecast for inflation at the end of 2024 to 2.6% from 2.4%, previously.

But we advise against reading too much into Fed projections, and we place greater weight on the economic data. Fed Chair Jerome Powell himself stressed several times that the dot plot should not be viewed as a plan

and could shift as data evolves. He also admitted to a “slight element of conservatism” in the Fed’s inflation forecasting, and that while the committee had been aware of the May CPI data, most participants had not altered their dot plots after the release.

It is also worth noting that while Fed officials scaled back their projection for cuts in 2024, the median dot pointed to four cuts in 2025, one more than previously indicated. Ultimately, the Fed will base policy on incoming data, which we expect to continue to weaken.

Takeaway: Current returns on cash will not be available for much longer. Investors should consider managing their liquidity through bond ladders, structured investment strategies with capital preservation features, or balanced equity-bond portfolios.

For more, see **Weekly Global: Fed remains cautious despite cooling US inflation**, 17 June, 2024.