



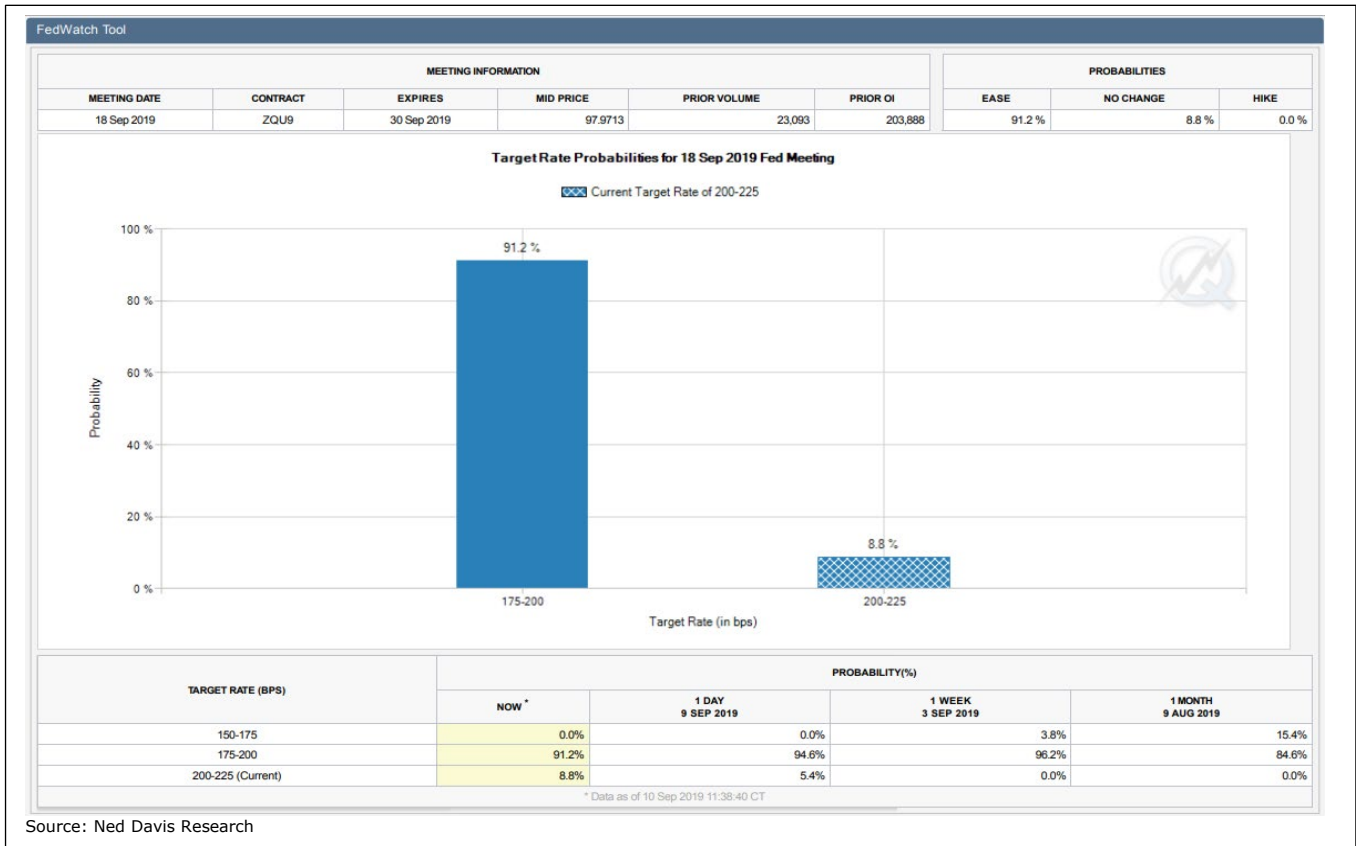
Please refer to Appendix – Important Disclosures.

September Rate Cut Priced in but Fourth Quarter Is Full of Questions

Key Takeaways: The Fed is likely to meet market expectations for a 25 basis point rate cut at next week’s (September 18) FOMC meeting. Economic outlook updates could help guide market expectations going forward. Rising bond yields could ease the pressure on the Fed to cut rates. A focus on manufacturing data could signal additional cuts are likely, while a broader consideration of economic data would suggest additional near-term easing is less likely.

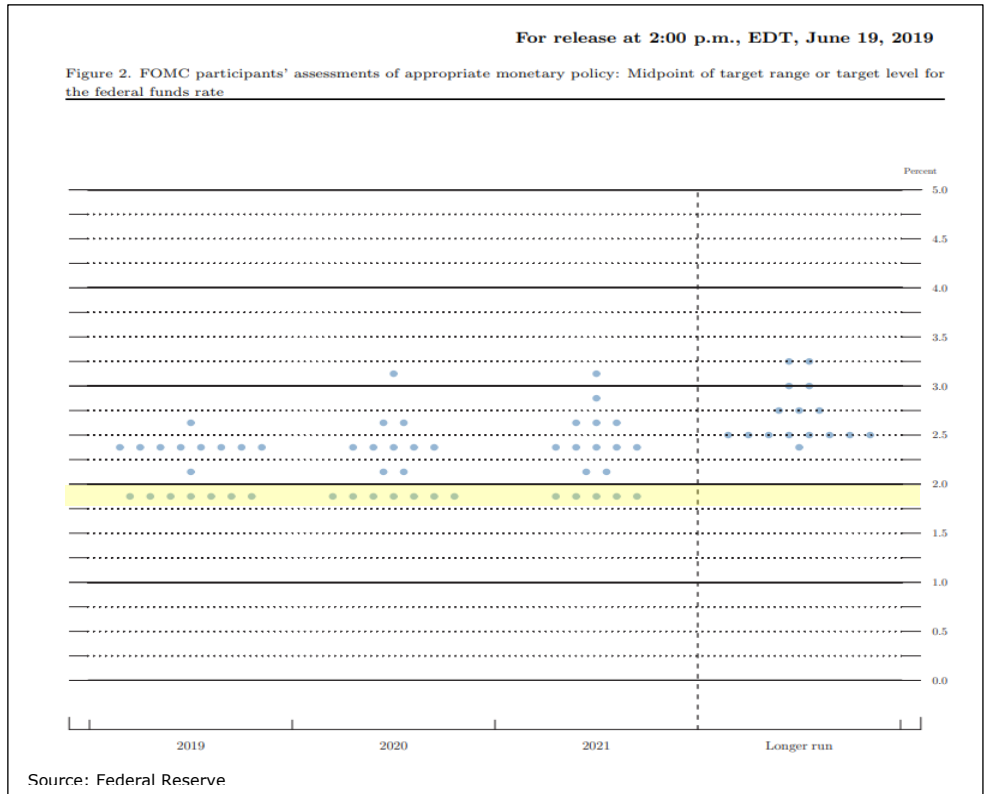
The futures market has backed away from the possibility of a 50 basis point cut at next week’s FOMC meeting and is currently pricing in a 92% chance of a 25 basis point cut. Dissenting votes are still likely and could come from FOMC voters on either side (those who would prefer no change and those who would prefer a 50 basis point cut in September).

The biggest question to be answered coming out of next week’s meeting, however, is what to expect for the fourth quarter. The futures market has fully priced in at least one additional rate cut (after September). If the consensus view on the FOMC is that this is unwarranted, look for post-meeting language next week that could convey this message.



Next week's FOMC meeting will feature a quarterly update of the Fed's economic projections, including an updated dot plot (which shows FOMC members' expectations for interest rates). In the most recent dot plot (from June), not a single FOMC member expected a fed funds rate below what will likely be the current level after next Wednesday. The dot plot is not a forecast for where rates are heading, it does reveal what FOMC participants see as likely appropriate levels for interest rates. Reluctance to lower their individual dots would be a signal that additional rates cuts this year are unlikely.

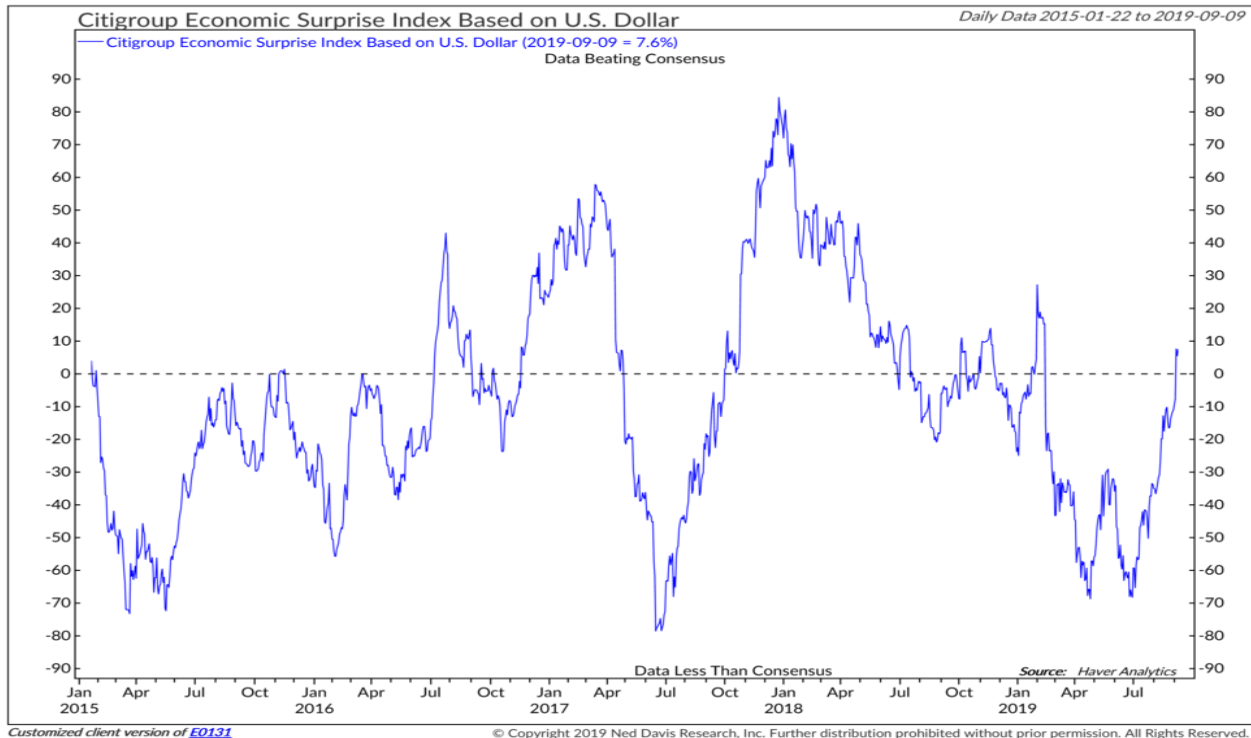
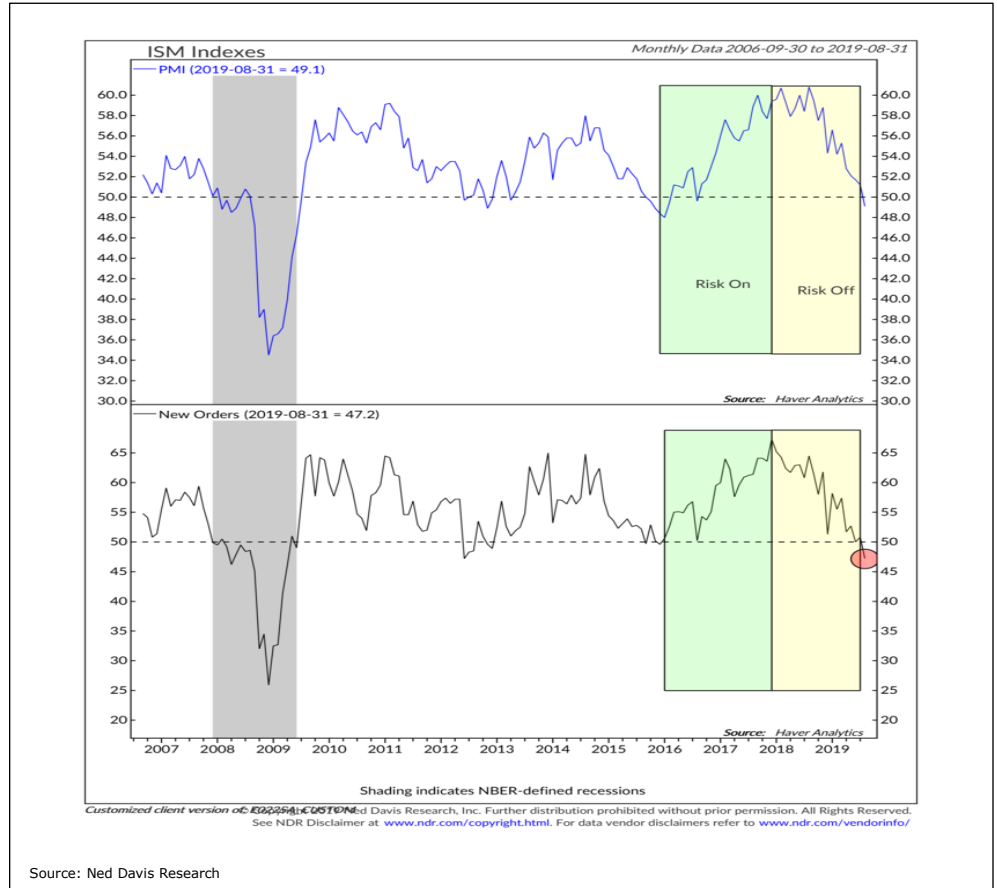
Rising bond yields (both at home and overseas) could reduce the pressure on the Fed (and other central banks) to continue to ease.



A narrow focus by the Fed on manufacturing data could lead it to signal that additional rate cuts are likely after the September meeting. While manufacturing is a relatively small portion of the overall economy, the weakness being experienced there is acute (particularly New Orders and Export-related areas) and manufacturing data feeds directly into various leading indicators.

While not dismissing the weakness in manufacturing, the Fed could focus on the economy more broadly. The picture there is more encouraging, and data overall has acutely begun to surprise to the upside.

If the Fed wants to drive interest rate expectations, rather than just react to them, what is said (and left unsaid) at next Wednesday's meeting could help seize control of the narrative.



Source: Ned Davis Research

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