



STREET SMARTS: MARKETS BRACE FOR NO RATE CUTS IN 2024

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The Federal Open Market Committee (FOMC) is holding its next meeting on April 30 and May 1. This time around, market participants largely expect the central bank to leave rates unchanged at a target of 5.25%-5.50% amid still elevated inflation levels.

Phillip Nelson, NEPC's head of asset allocation, shares his insights into interest rates, monetary policy and our economic and investment outlooks.

1. When can markets expect the Federal Reserve to start cutting rates?

The Federal Reserve's bias is to cut interest rates. But the inflation data so far this year is coming in consistently more elevated. The central bank is having to be more patient with when the path to rate cuts will begin. We think investors should brace themselves for the potential that there will be no cuts from the Fed in 2024. That expectation is getting increasingly priced into markets.

2. What is the Fed looking at to determine the path of monetary policy?

The Fed is focused on core services sector where we are still seeing stickier inflation. The central bank is looking closely at the extent to which wage gains are fueling any potential inflation.

3. What should investors do in this environment?

In the current market environment, we encourage investors to take a closer look at larger allocations to Treasury Inflation-Protected Securities (TIPS). With higher real rates and elevated inflation, we think TIPS can provide a long-term benefit to investors.

Within the equity complex, we recommend investors diversify their holdings of U.S. large-cap stocks with exposure to higher-quality and more value-oriented stocks, while moving away from mega-cap names.

4. What is NEPC focusing on in the near term?

We are increasingly focused on the trajectory of the U.S. dollar. We could see more divergence between the Fed and its peers around the world, with other central banks looking to ease monetary policy while the Fed remains intent on reining in inflation. This will bolster dollar strength, which can aggravate macroeconomic risks around the world.

IMPORTANT DISCLOSURES

Past performance is no guarantee of future results.

All investments carry some level of risk. Diversification and other asset allocation techniques are not guaranteed to ensure profit or protect against losses.

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