



TheECONOMY

Wake Me Up When September's (FOMC Meeting) Ends

All eyes are on the Fed as investors wait to see whether the U.S. central bank will cut interest rates in September after years of elevated rates. Inflation cooled again in July, and market participants are now convinced that we will see a rate cut next month. Core prices, which exclude food and energy, rose 3.2% from a year earlier and 0.2% from the month prior while overall CPI rose 2.9% year-over-year, marking the first time CPI has been below 3% since 2021. Shelter costs, like rents, continue to be the main driver of inflation and accounted for 70% of the total increase in core prices during the year. Despite the increase in housing costs, prices across the rest of the categories were quite stable and declines in vehicle prices helped offset some of the sting from shelter costs.

The Fed operates on a dual mandate to keep prices stable and to maximize employment and now that prices are nearing the Fed's target, the cooling labor market is beginning to enter the picture. Unemployment in July rose to 4.3% compared to 3.5% a year prior. Healthcare continues to show strong employment, but we are starting to see declines in professional services employment and some areas of manufacturing which all point to a cooling labor market. We are now in an environment where inflation has continued to moderate for several months against the backdrop of increasing unemployment which will likely provide the Fed with the backing they need to begin cutting.

Whether the Fed can cut rates while staving off a recession or a resurgence in inflation remains to be seen. From the perspective of the overall economy, however, things appear strong. Q2 GDP growth surprised to the upside at 2.8% and was driven by elevated consumer spending and a large jump in business investment. The ISM manufacturing index, while in contractionary territory, is still at a level that suggests a growing economy, and the services index bounced back to expansion in July. Overall, conditions appear to be coalescing in favor of a rate cut and investors will be eagerly watching next month's meeting.

Treasury Yields

| MATURITY | 8/13/24 | 7/12/24 | CHANGE |
|----------|---------|---------|---------|
| 3 Month | 5.177% | 5.332% | -0.155% |
| 6 Month | 4.924% | 5.179% | -0.255% |
| 1-Year | 4.394% | 4.853% | -0.459% |
| 2-Year | 3.929% | 4.451% | -0.522% |
| 3-Year | 3.750% | 4.227% | -0.477% |
| 5-Year | 3.672% | 4.102% | -0.431% |
| 10-Year | 3.843% | 4.183% | -0.340% |
| 30-Year | 4.158% | 4.396% | -0.238% |

Source: Bloomberg

Agency Yields

| MATURITY | 8/13/24 | 7/12/24 | CHANGE |
|----------|---------|---------|---------|
| 3 Month | 5.050% | 5.240% | -0.190% |
| 6 Month | 4.760% | 5.110% | -0.350% |
| 1-Year | 4.330% | 4.820% | -0.490% |
| 2-Year | 4.047% | 4.523% | -0.476% |
| 3-Year | 3.829% | 4.298% | -0.468% |
| 5-Year | 3.763% | 4.178% | -0.415% |

Source: Bloomberg

Commercial Paper Yields (A-1/P-1)

| MATURITY | 8/13/24 | 7/12/24 | CHANGE |
|----------|---------|---------|---------|
| 1 Month | 5.320% | 5.370% | -0.050% |
| 3 Month | 5.230% | 5.420% | -0.190% |
| 6 Month | 5.010% | 5.370% | -0.360% |
| 9 Month | 4.840% | 5.300% | -0.460% |

Source: Bloomberg

Current Economic Releases

| DATA | PERIOD | VALUE |
|-------------------|--------------|-------------|
| GDP QoQ | Q2 '24 | 2.80% |
| US Unemployment | Jul '24 | 4.30% |
| ISM Manufacturing | Jul '24 | 46.8 |
| PPI YoY | Jul '24 | 2.20% |
| CPI YoY | Jul '24 | 2.90% |
| Fed Funds Target | Aug 14, 2024 | 5.25%-5.50% |

Source: Bloomberg

Source: Bloomberg. Data as of August 13 2024. Data unaudited. Many factors affect performance including changes in market conditions and interest rates and in response to other economic, political, or financial developments. Investment involves risk including the possible loss of principal. No assurance can be given that the performance objectives of a given strategy will be achieved. VIP is not a bank. An investment in VIP is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although VIP seeks to preserve the value of your investment at \$1.00 per share, it cannot guarantee it will do so. All comments and discussions presented are purely based on opinion and assumptions, not fact. These assumptions may or may not be correct based on foreseen and unforeseen events. The information presented should not be used in making any investment decisions. This material is not a recommendation to buy, sell, implement, or change any securities or investment strategy, function, or process. Any financial and/or investment decision should be made only after considerable research, consideration, and involvement with an experienced professional engaged for the specific purpose. Past performance is not an indication of future performance. Any financial and/or investment decision may incur losses.