



## TheECONOMY

### The Fed's Challenge To Walk A Tightrope When Lowering Rates

The September FOMC meeting resulted in a half-point interest rate cut, the first rate reduction since March 2020, that lowered the federal funds rate to between 4.75%-5.0%. Up until the meeting, the market was split on whether the move would be 25 bpt, as is typical, or the larger 50 bpt reduction. Aside from emergency rate reductions made during the pandemic, the last half-point cut made by the Fed was during the global financial crisis in 2008.

Now that there have been signs that inflation is moderating, the Fed appears to be shifting its focus toward the labor markets. YoY CPI has declined for the fifth consecutive month, totaling 2.5% in August, while unemployment has climbed above 4.0% where it has remained for the last 4 months. The Fed commented in its September press release that "the risks to achieving its employment and inflation goals are (now) roughly in balance." The more aggressive reduction may reflect the Fed's view that the economy has reached an inflection point as it balances its dual mandate to maintain price stability and maximize employment.

The Fed is now tasked with determining the speed and size of future rate cuts. It must navigate and weigh the risks of lowering rates too slowly against the possible consequences of moving rates too quickly. If the Fed is too slow to lower rates, unemployment could climb and require the use of larger-sized interest rate moves to reinvigorate the economy. Additionally, if rate reductions are too fast, there is the possibility that inflation isn't completely tamed and remains above the Fed's 2% target. The Fed must carefully navigate this tightrope, remaining mindful not to provoke market panic, as investor fears and overreactions could worsen risk scenarios. Chairman Powell has attempted to set market expectations for future rate cuts, indicating that no one should assume that half-points will be the size of reductions moving forward.

As the U.S. and its global peers attempt to maneuver the difficult task of lowering rates without causing significant economic pressures, uncertainty persists about the correct course for the size and speed of interest rate cuts. However, U.S. economic indicators appear to continue to reflect signs of the underlying economy's strength and resiliency, which suggests that the Fed's goal of achieving a soft landing remains a real possibility.

### Treasury Yields

MATURITY	9/18/24	8/13/24	CHANGE
3 Month	4.750%	5.177%	-0.427%
6 Month	4.507%	4.924%	-0.417%
1-Year	3.979%	4.394%	-0.415%
2-Year	3.617%	3.929%	-0.312%
3-Year	3.489%	3.750%	-0.261%
5-Year	3.483%	3.672%	-0.189%
10-Year	3.704%	3.843%	-0.139%
30-Year	4.021%	4.158%	-0.138%

Source: Bloomberg

### Agency Yields

MATURITY	9/18/24	8/13/24	CHANGE
3 Month	4.750%	5.050%	-0.300%
6 Month	4.410%	4.760%	-0.350%
1-Year	3.900%	4.330%	-0.430%
2-Year	3.681%	4.047%	-0.366%
3-Year	3.543%	3.829%	-0.286%
5-Year	3.567%	3.763%	-0.196%

Source: Bloomberg

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

MATURITY	9/18/24	8/13/24	CHANGE
1 Month	4.970%	5.320%	-0.350%
3 Month	4.880%	5.230%	-0.350%
6 Month	4.630%	5.010%	-0.380%
9 Month	4.380%	4.840%	-0.460%

Source: Bloomberg

### Current Economic Releases

DATA	PERIOD	VALUE
GDP QoQ	Q2 '24	3.00%
US Unemployment	Aug '24	4.20%
ISM Manufacturing	Aug '24	47.2
PPI YoY	Aug '24	1.70%
CPI YoY	Aug '24	2.50%
Fed Funds Target	Sep 20, 2024	4.75%-5.00%

Source: Bloomberg

Source: Bloomberg. Data as of September 20, 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.