



CIO recommends investors shift excess cash into quality fixed income, especially as the recent increase in yields offers an opportunity to lock in attractive levels. (UBS)

# CIO recommends investors shift excess cash into quality fixed income

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**The Federal Reserve continued its rate-cutting cycle on Thursday, lowering the policy rate by 25 basis points to a range of 4.50-4.75%. The S&P 500 rose 0.7% to another record high, while the yield on the 10-year US Treasury fell by 11 basis points to 4.33%.**

The decision came just a day after Donald Trump was elected to the White House for a second time. The initial post-election market reaction suggested investors believe potential changes to trade, migration, and fiscal policy could lead to higher inflation, and in turn slow the pace of future Fed rate cuts.

Yet the global easing cycle remains on track. The Bank of England also cut rates by 25bps on Thursday, and Sweden's Riksbank lowered its key policy rate by 50bps. We expect the US central bank to continue to lower rates toward a neutral policy stance.

**The Fed reiterated its data-dependent approach.** While Fed Chair Jerome Powell refused to provide guidance on the possibility of cutting again at the next meeting in December, he noted that the US central bank remains on a path to bring policy closer to neutral, and that decisions would be made on a meeting-by-meeting basis, hinging on incoming inflation and labor data. Powell reiterated that inflation had receded and that the labor market had cooled. He also stated that in the near term, the US election would have "no effect on our policy decisions," as the "timing and substance" of any

policy changes are unknown. Powell did state that he would not resign if asked by the incoming president. We expect Powell to be replaced after he serves out his term, which expires in May 2026.

**Recent data show the US labor market has continued to soften.** October's nonfarm payrolls increased by only 12,000, far below consensus forecasts of 110,000. While there is little doubt that the figures were affected by Hurricanes Helene and Milton, the size of the impact remains uncertain. The downward revisions for the prior two months, however, suggest that the underlying labor trend is not as strong as was indicated by September's reading. Other recent data were also consistent with a softening labor market, with job openings in September falling to the lowest level since January 2021 and the private sector quit rate dropping to a new low for the cycle. The Employment Cost Index, generally considered to be the best measure of wage growth, slowed to 0.8% quarter over quarter in the three months to September, the lowest since the second quarter of 2021.

**An actively restrictive policy appears unnecessary despite resilient growth.** The US economy expanded by 2.8% in the third quarter from the previous three months, another solid outcome after the 3% growth in the second quarter. This is in line with our view that growth is robust but not too hot to warrant an actively restrictive monetary policy. The personal consumption expenditures price index, the Fed's preferred gauge of inflation, slowed to 2.1% year over year in September, the lowest level in three years. We believe inflation will be low enough for the Fed to continue easing, as the current fed funds rate remains well above its estimate of neutral.

So we continue to expect another 25bp cut in December and a further 100bps of easing in 2025. We recommend investors shift excess cash into quality fixed income, especially as the recent increase in yields offers an opportunity to lock in attractive levels. Investors can also consider diversified fixed income strategies as a way of enhancing portfolio income.

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Original report: [Fed cuts interest rates as global easing cycle continues, 8 November 2024.](#)

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