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Weekly Commentary

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Slower rate cut forecast

The Federal Reserve gave the liquidity markets an early Christmas present in December, one that should keep giving all year.

At its December 18 meeting, the Federal Open Market Committee lowered the fed funds range by a quarter-point to 4.25-4.50% but forecast that the pace of rate cuts will slow considerably this year. In its Summary of Economic Projections, only five participants penciled in more than two 25 basis-point cuts next year, and the median dot indicated the markets will get only 50 basis points worth of easing in all of 2025. This likely takes a cut in January off the table, but more importantly it suggests that fed funds might settle at a higher long-term level—called the terminal rate—than once thought. That would be a positive for investors in liquidity products, as it could mean yields will be relatively attractive for longer.

Granted, there's plenty of uncertainty that has the markets on edge, mostly relating to the new Trump administration. But the Fed sets policy based on the economy, not politics. The money markets should have a friend in the Fed for a while longer.