

# **The Wild Ride Is Not Over**

## **When Will the Fed Cut and Does It Matter?**

**Claudia Sahm**

Sahm Consulting and Stay-At-Home Macro (SAHM) Substack

[info@claudiasahm.com](mailto:info@claudiasahm.com)

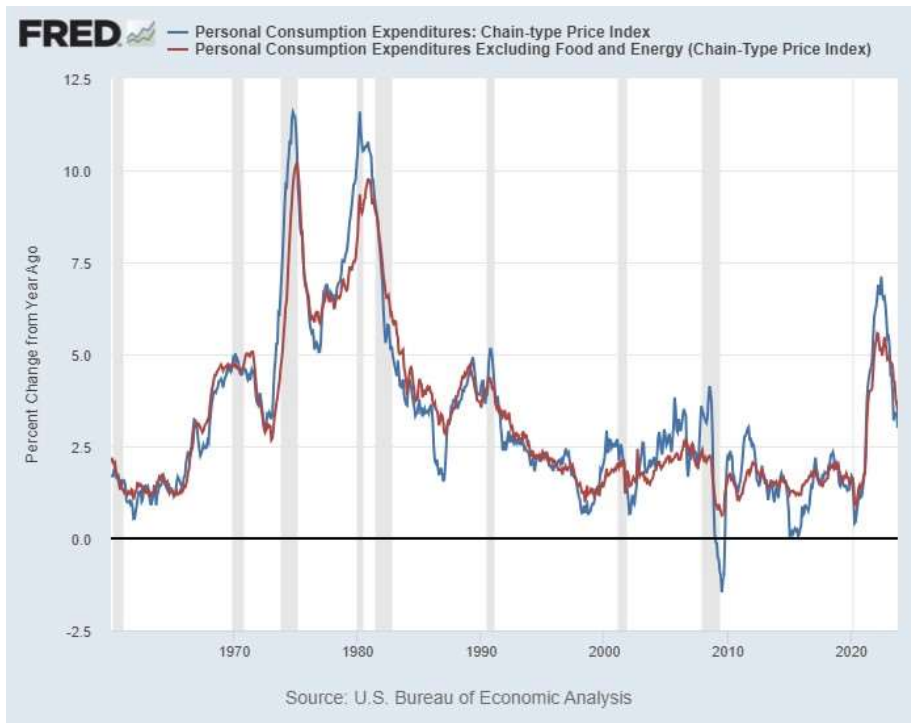
December 12, 2023

## Key Takeaways

- The U.S. economy is on a **glide path to a soft landing**: inflation will be back down close to 2% next year, and the unemployment rate of 4% or less.
- With inflation coming down this year, the Fed **is done raising rates**.
- The Fed will be **very cautious about the first rate cut**, regardless of unemployment or GDP. June is the earliest cut likely. **But it won't matter**.
- The biggest risks next year: the **Fed rattles markets even more**, leading to something 'to break.' And **American politics: the House and election**.

# The impossible is possible: the soft landing

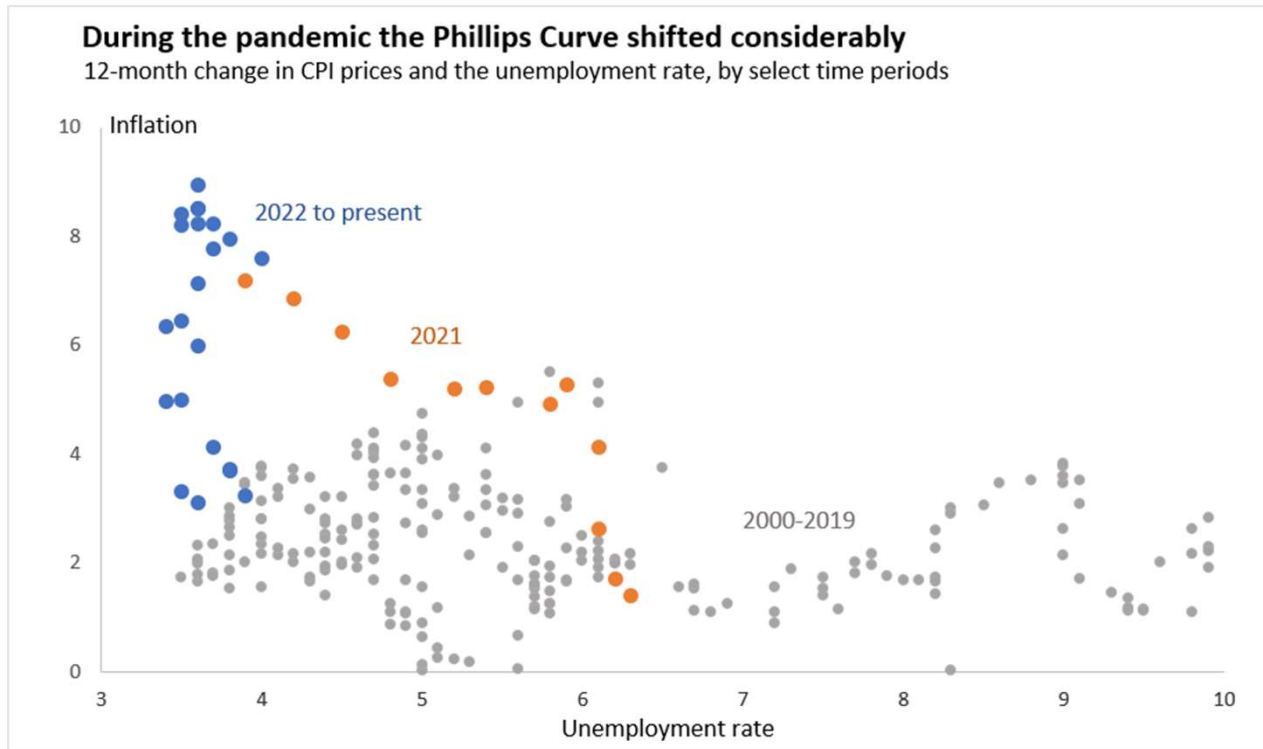
The US economy is coming back into balance: inflation decreasing, unemployment low, and spending solid.



- Inflation *has* steadily come down this year, with unemployment staying low.
- The US is coming out of this better than most of its peer countries.

# The Fed is done, finally

Fed's tools and most macro models are about demand; most inflation time is supply driven.



Source: Bureau of Labor Statistics.

- Again, inflation is coming down. The Fed never said we “need” a recession and they are not trying to cause one. It’s time to stop and they know that.

## The Fed will be very cautious on first cut



- No one wants to be Arthur Burns, who cut 'prematurely' in the 1970s.
- Paul Volcker is Jay Powell's hero. None of it will matter for the economy.

# Markets and the election are the wild cards

Unusually large disagreement among forecasters on when first cut and how many next year.

## The Fed will likely cut interest rates 4 times next year as the economy remains resilient

Meanwhile, analysts at ING have predicted the Fed will deliver six rate cuts next year as the economy slows, amounting to 150 basis points.

And UBS sees even more aggressive cuts, saying slow economic growth would drive the Fed to cut rates by 275 basis points by the end of 2024.

"The Fed is forecast to begin a significant easing cycle in Q224 (markets are more aggressive relative to econ consensus), delivering 100bp cuts in 2024, another 100bp in 2025 and more in 2026 to a steady state rate of 2.75-3%," Barclays said, summing up the consensus view.

That implies the Fed will make four 25-basis-point rate cuts next year.

## Goldman Favors Options to Counter 'Excessive' Rate-Cut Pricing

- Firm recommends selling a call option in June SOFR Options

## US recession will prompt 175 basis points in Fed cuts next year, DB economists say

Source. Business Insider ([Dec. 4, 2022](#)); Reuters ([Nov. 27, 2023](#)); Bloomberg ([Dec. 4, 2023](#)).

- The Fed's forward guidance is falling apart, and surprising markets are bad.
- House Republicans and the elections next year are a real threat.