



MONTHLY COMMENTARY

APRIL 2024

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April Commentary

Macroeconomic data in the US point to stubborn inflation pressures, lengthening the time that it will take the Federal Reserve (Fed) to gain confidence that it will return inflation to 2% on a sustained basis. US activity data remain strong but cooled in April with 175,000 jobs created on net and the unemployment rate rising a tenth to 3.9%. Overall, the labor market is tight and keeps upward pressure on costs. Reports on consumer prices show inflation to be stubborn, with the Fed's preferred inflation measure—core personal consumption expenditures (PCE)—running 2.8% over the past 12 months. The “last mile” in reducing inflation continues to be difficult, with services prices sticky and the easy wins in goods price disinflation coming to an end. The slow downtrend in core inflation could stall, given supply chains are again at risk from geopolitical strain.

The Fed's next action on rates is still likely to be an ease, but ongoing resilience in US economic data significantly lowered the probability of any near-term action. We think that the Federal Open Market Committee (FOMC) will commence easing at its December meeting. The case for easing to begin in December takes both economic data and the political calendar into account. The Fed's economic case is to realign the nominal funds rate lower given the sustained decline in inflation, once they are confident inflation will settle to its goal. With a campaign and election looming this Fall, December is the next safe harbor on the political calendar when the Fed can act without confusing the public about their intent. The December meeting also offers the FOMC the opportunity to shape rate guidance with the Summary of Economic Projections, which will be one-and-done for 2024. Expect some revision to the outlook in that direction in their update at the June meeting.

Regarding the Fed's balance sheet, at the April FOMC meeting, officials announced they would slow the pace of balance-sheet runoff. Starting in June, the maximum monthly drawdown in US Treasury securities will be cut from \$60 billion to \$25 billion, but the cap on redemptions of mortgage-backed securities will be kept at \$35 billion. The Fed's portfolio holdings continue to contract but thus far, reverse repurchase agreements have mirrored the decline, implying that reserves have moved sideways to higher.

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April Commentary (continued)

Led by the stubbornness of the inflation data and continued strength in the economy, market yields cheapened in tandem as the markets began to price out any near-term action from the Fed. With Fed speakers leading the way, probabilities for the first cut had materialized around the June meeting with a greater-than-50% probability but have cratered with the market now pricing the first full 25-basis-point cut later in the year. The Fed's interest rate dots still call for 75 basis points of cuts this year, but the markets ended April pricing in only one cut.

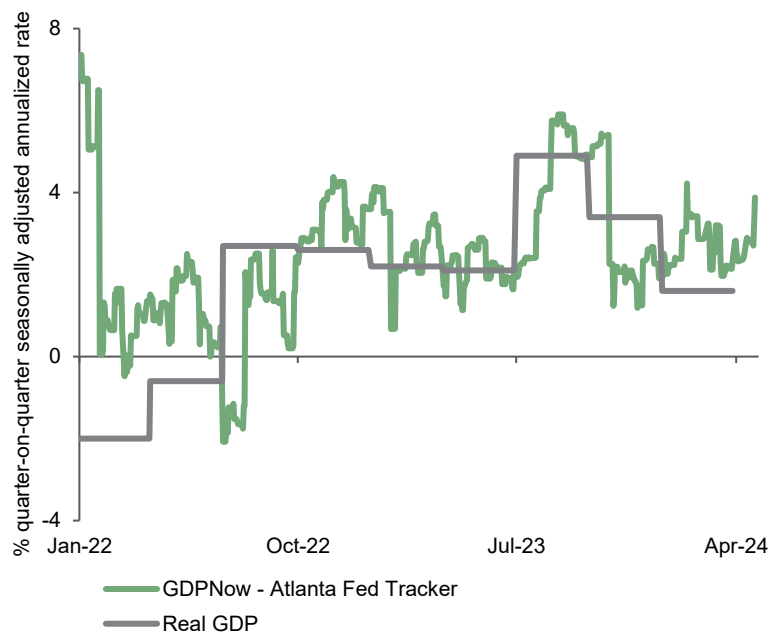
As the probabilities of the first rate cut get pushed to later into the year, market yields in longer money market securities cheapened by 10 to 20 basis points during the month. Dreyfus took the opportunity to extend opportunistically in both fixed- and floating-rate securities.

While cash remains an attractive asset class as higher-for-longer persists, money market funds saw outflows of around \$130 billion during the month of April, led by typical Tax Day outflows. It is expected that assets under management across money market funds will remain near historic highs.

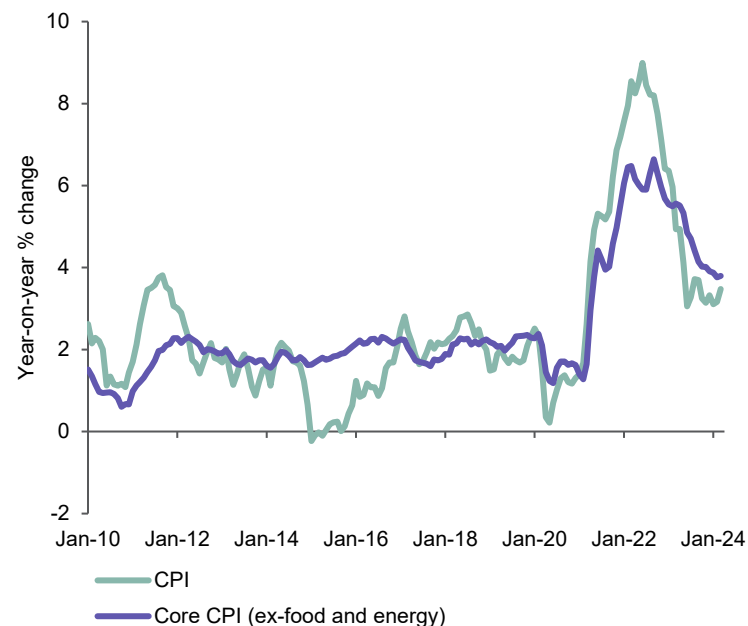
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Economic Overview

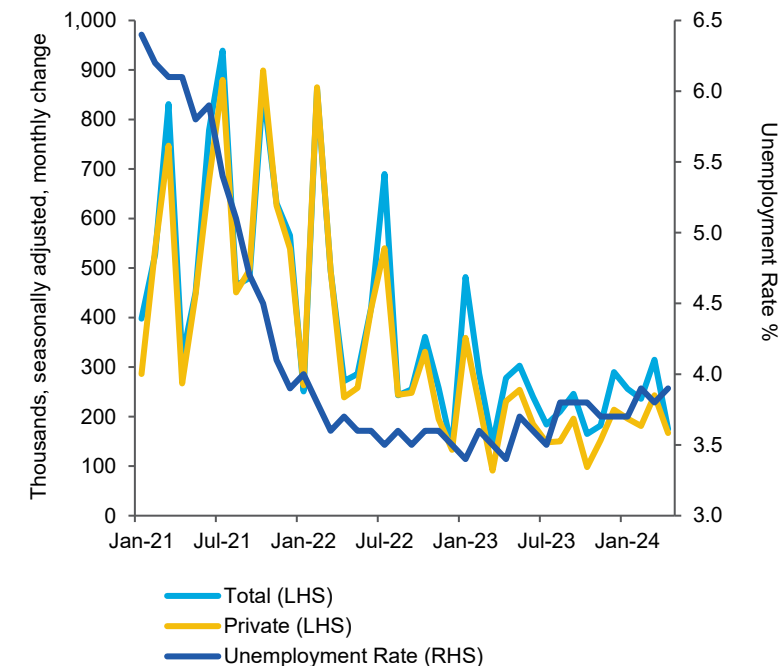
US Gross Domestic Product



US Inflation CPI (Consumer Price Index)



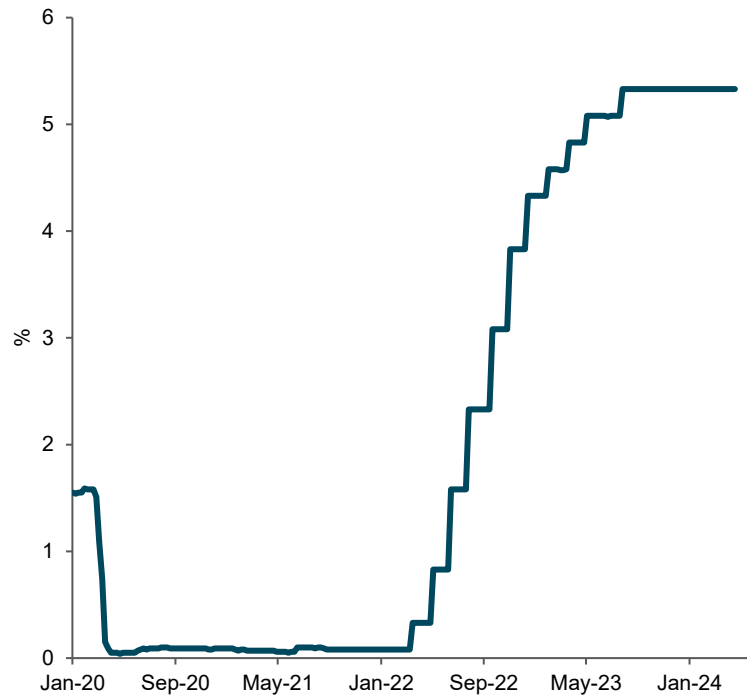
Nonfarm Payroll Employment



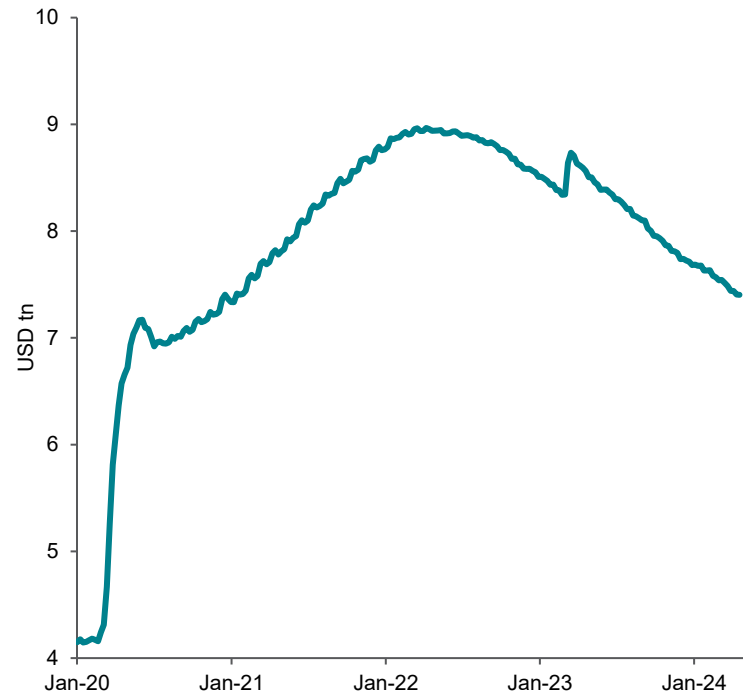
PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. Sources: US GDP chart – Bureau of Economic Analysis (BEA) and Federal Reserve Bank of Atlanta; US Inflation / CPI chart, accessed 4/30/24. Nonfarm Payroll Employment chart – Bureau of Labor Statistics (BLS), accessed 5/3/24. See Additional Information in Disclosure Statements. [544429]

Federal Reserve Policy

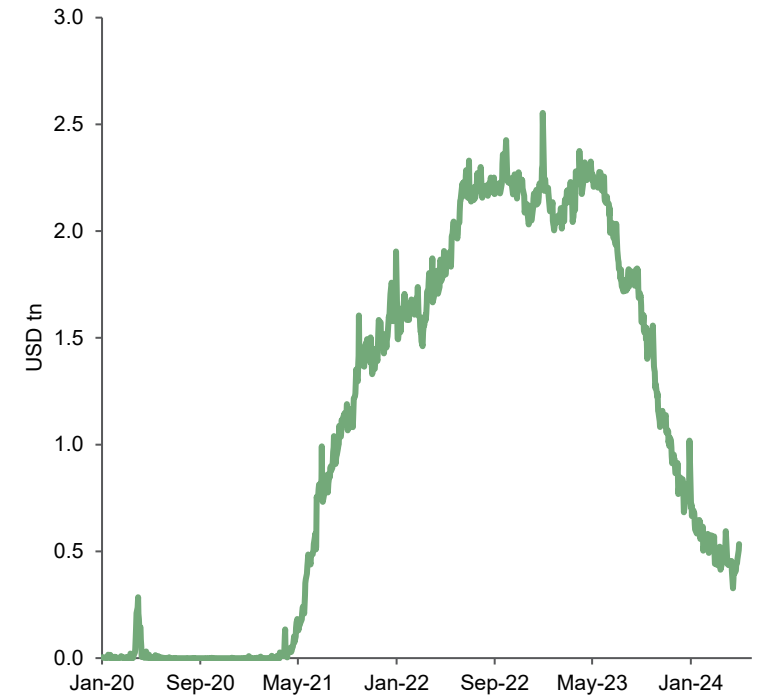
Federal Reserve - Effective Federal Funds Rate



Federal Reserve Balance Sheet – Total Assets



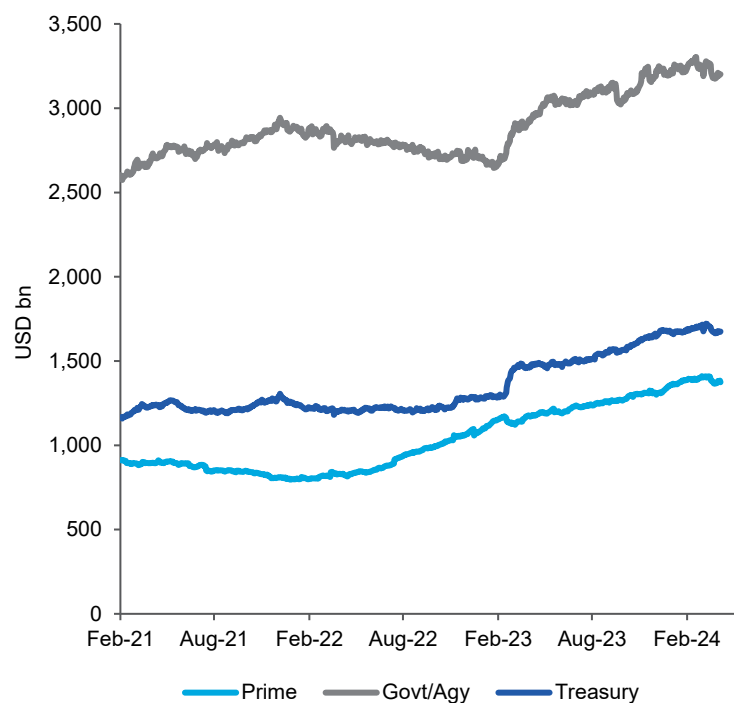
NY Fed Overnight Reverse Repo



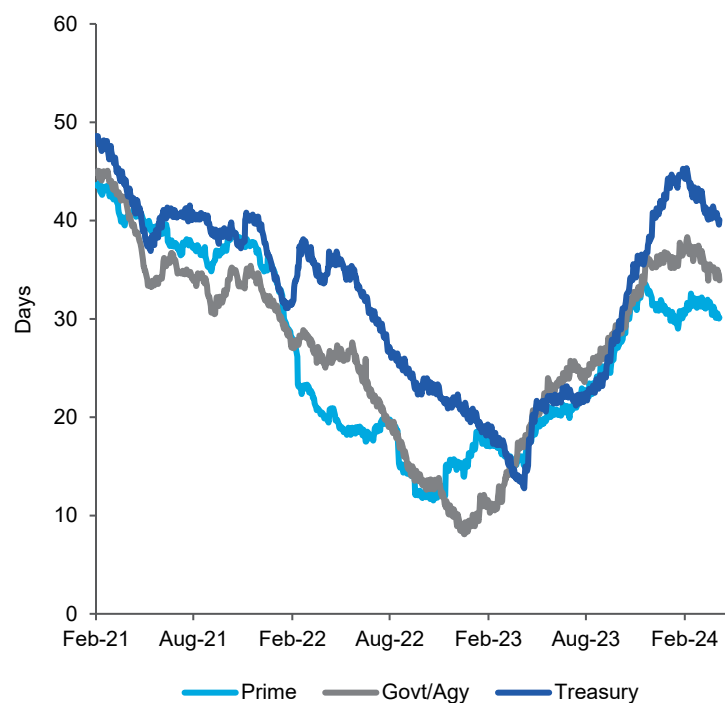
PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. Source: Federal Reserve, accessed 4/30/24. See Additional Information in Disclosure Statements. [544429]

Money Market Fund Highlights

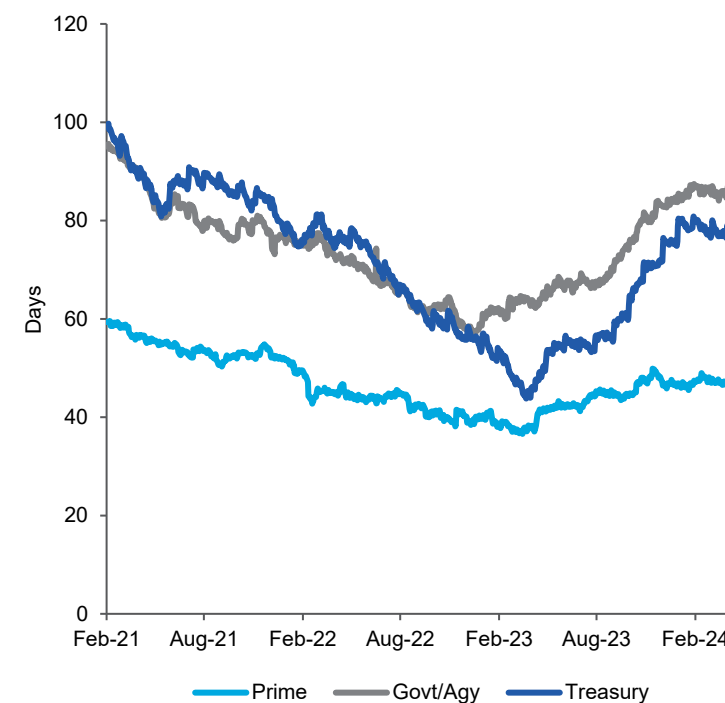
MMFs Assets Under Management



MMFs Weighted Average Maturity



MMFs Weighted Average Life



PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. Source: Crane Data. MMF = Money Market Fund. See Additional Information in Disclosure Statements. [544429]

Disclosure

For more market perspectives and insights from our teams, please visit www.Dreyfus.com

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