



MONTHLY COMMENTARY

SEPTEMBER 2024

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Commentary

The Federal Reserve (Fed) kicked off its easing cycle at its September meeting in a closely watched and contested decision. The Federal Open Market Committee (FOMC) lowered the target range for the Fed funds rate by 50 basis points (bps) to 4.75% to 5%. The action was made possible because the committee had “gained greater confidence” that inflation was moving toward its target and that “job gains had slowed.” The statement was updated to stress that the committee was “strongly committed to supporting maximum employment” and that the risks to its dual objectives were “roughly in balance.” There was no doubt that the Fed would ease in September as Chair Powell stated at Jackson Hole last month that “the time has come for policy to adjust” and that “the direction of travel is clear.” However, the magnitude of the first easing had been up for debate, with a larger 50 bp cut winning out over a more gradual 25 bp move. The projected policy path in the Summary of Economic Projections (SEP) shifted lower as well and now shows that the median participant envisions 50 bps of additional easing this year to bring the lower bound of the Fed’s target rate to 4.25%. The downward trajectory flattens thereafter, with the funds rate lowered by 100 bps at the end of 2025 and an additional 50 bps in 2026. The median participant’s estimate of the longer-run Fed funds rate increased 0.125% to 2.875%. The economic projections were updated to reflect recent data, with a higher path for the unemployment rate and somewhat slower inflation in 2025.

In our outlook, US economic activity slows somewhat but to a pace not far from potential. Despite better news on inflation, an assured return to the zone of price stability should take more time and may be uneven, with risks that inflation can again increase as monetary policy eases. We think that the FOMC can stick with its plan by following up with 25 bp cuts at the final two meetings of the year and then downshift thereafter. Whether markets can contain their enthusiasm is another matter. Fed funds futures markets in the last week of September priced in 75 bps of additional cuts through the end of 2024, implying the expectation of another jumbo cut of 50 bps in either November or December.

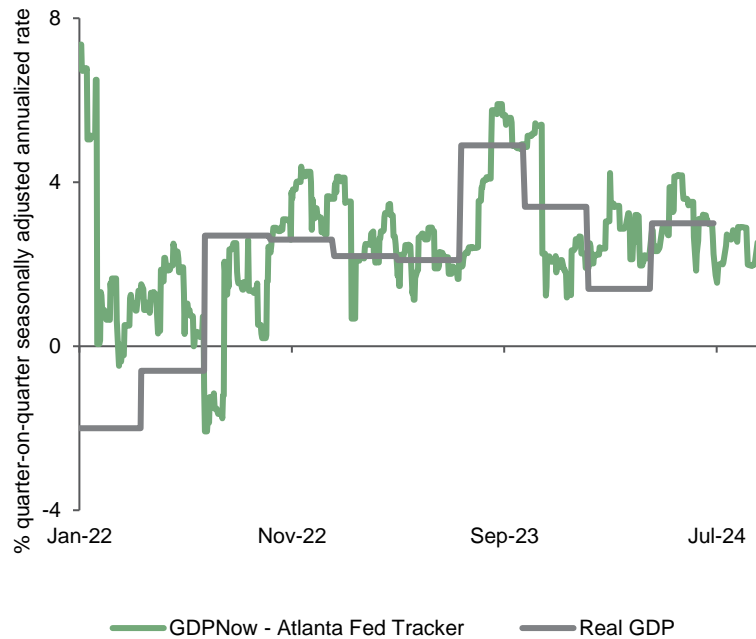
Last month, the labor market continued to cool but other data show US economic activity seems well maintained. August’s employment report saw payrolls rise by 142,000, more than July’s 89,000, but came with significant downward revisions to already soft gains in June and July. This brings the 3-month moving average of monthly job gains to 118,000, a marked shift lower in the pace of job creation from the last couple of years. That said, the economy is still adding jobs, the unemployment rate edged lower for the first time since March, and average hourly earnings were slightly stronger than expected. Other sectors of the US economy, like consumption and construction, remain resilient. Inflation readings have been favorable, with the annual rate of consumer price growth slowing over the last six months to 2.5%.

Anticipated easing in coming months led money market funds to reign in their weighted average maturities (WAM) across the various strategies as they reassessed relative value across the money market curve. Dreyfus added fixed and floating securities opportunistically while being content to carry higher liquidity levels as overnight levels remain attractive.

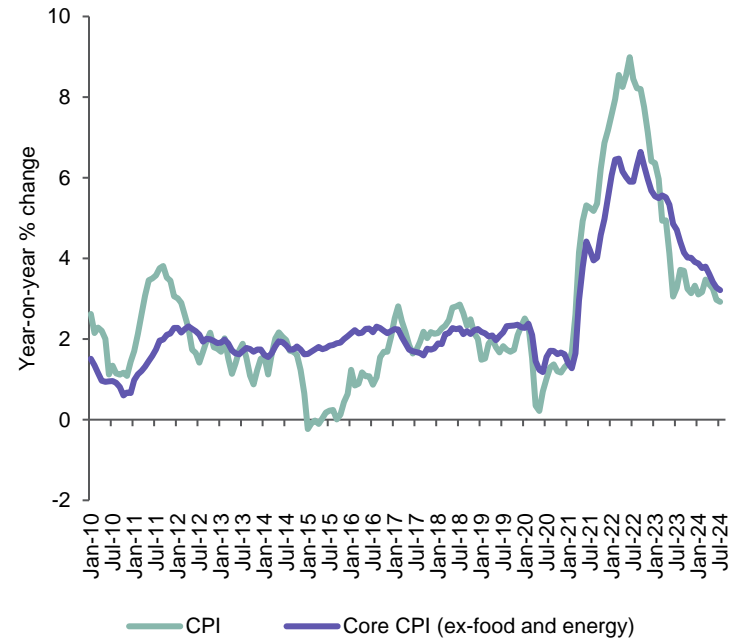
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Economic Overview

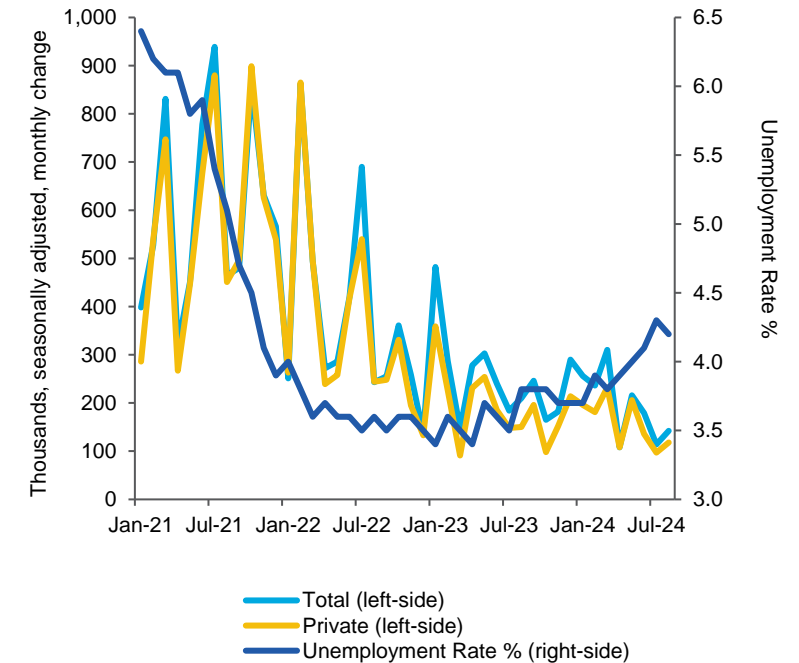
US Gross Domestic Product



**US Inflation
CPI (Consumer Price Index)**



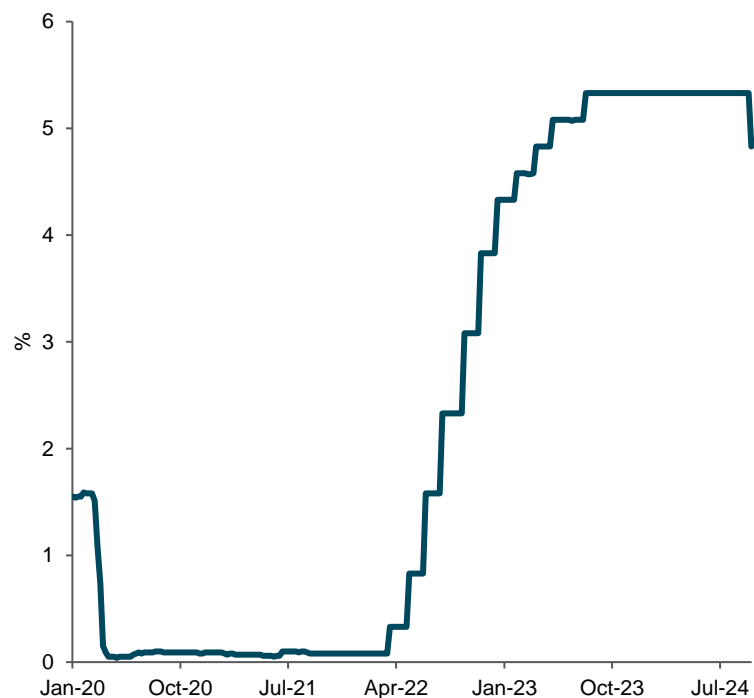
Nonfarm Payroll Employment



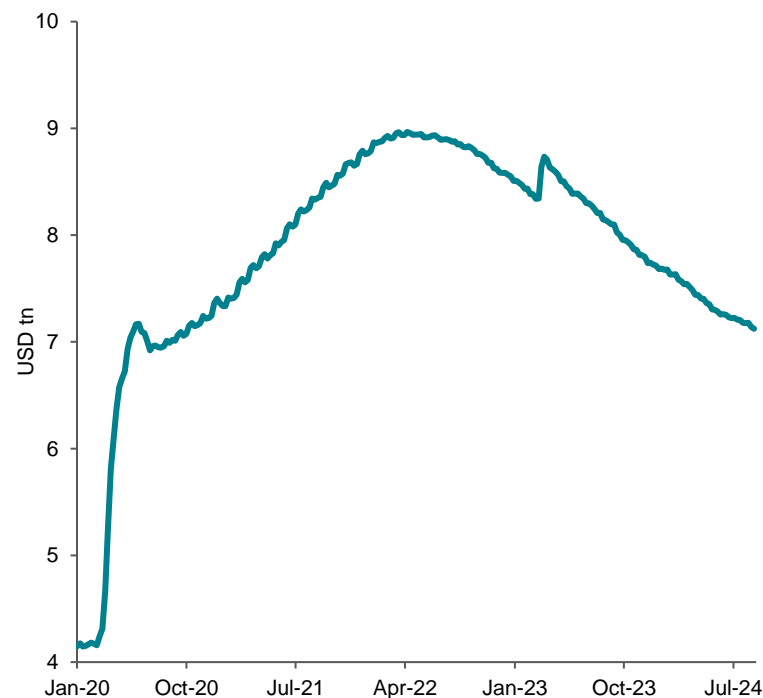
PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. Sources: US GDP chart – Bureau of Economic Analysis (BEA) and Federal Reserve Bank of Atlanta; US Inflation / CPI chart. Nonfarm Payroll Employment chart – Bureau of Labor Statistics (BLS). Data accessed 9/24/24. See Additional Information in Disclosure Statements. [608463]

Federal Reserve Policy

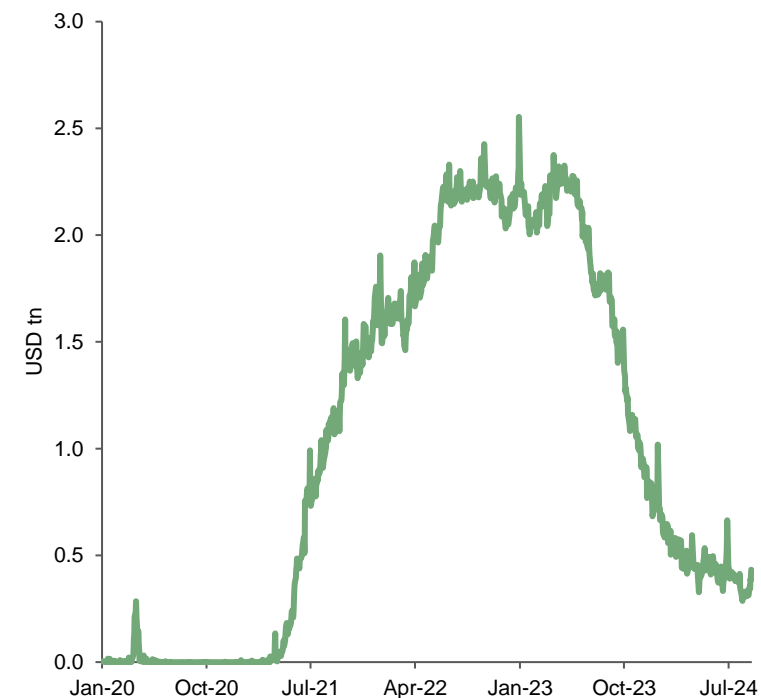
Federal Reserve – Effective Federal Funds Rate



Federal Reserve Balance Sheet – Total Assets



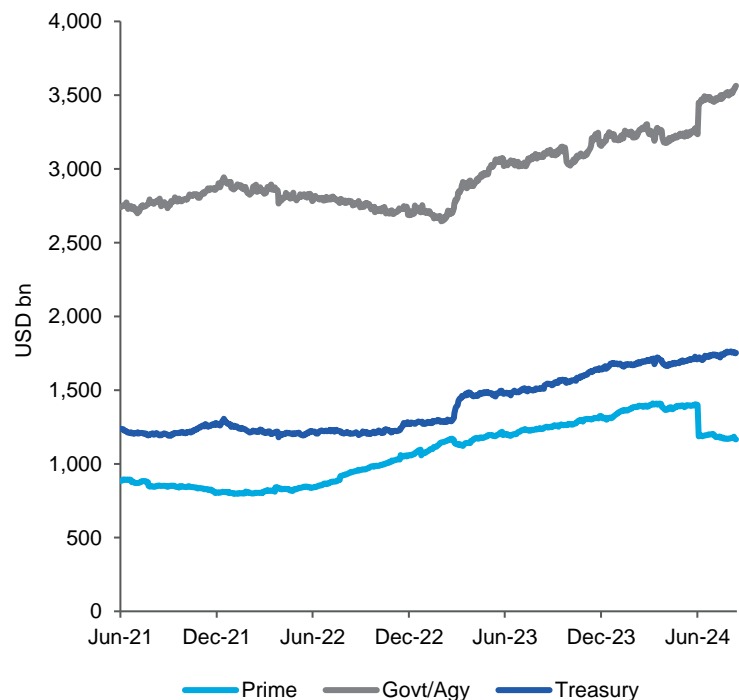
NY Fed Overnight Reverse Repo



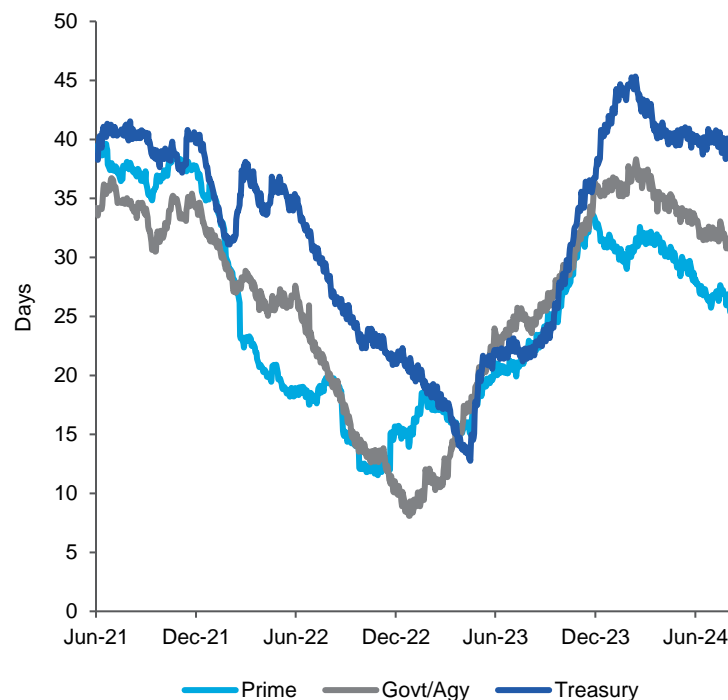
PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. Source: Federal Reserve, accessed 9/24/24. See Additional Information in Disclosure Statements. [608463]

Money Market Fund Highlights

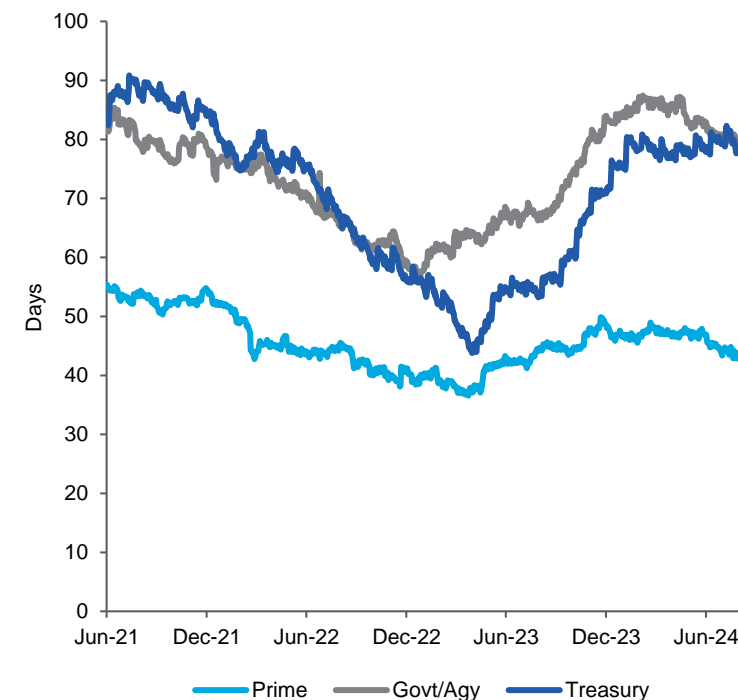
Assets Under Management



Weighted Average Maturity



Weighted Average Life



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Disclosure

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

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