LORD ABBETT®

September 19, 2024
This is a marketing communication.

Markets & Economies

Five Quick Points on the Fed's Rate-Cut Decision

A brief outline of the policy and investment implications of the September 17–18 FOMC meeting.

Leah Traub, Ph.D.
Partner & Portfolio Manager

The Federal Open Market Committee (FOMC), the policy-setting arm of the U.S. Federal Reserve (Fed), cut the target federal funds rate by 50 basis points (bps) on September 18, to a range of 4.75% to 5%. This ended a period of intense speculation over what would be the size of the Fed's first rate cut since 2020—specifically, whether rates would be reduced by 25 or 50 bps.

The "25/50" debate reflected differing views on how forcefully the Fed would respond to two significant developments: an ongoing moderation in inflation toward the Fed's 2% target; and signs of slowing in the labor market after an extended period of strong payrolls growth and low unemployment. Uncertainty as to the extent and timing of Fed rate reductions led to volatility in interest rates across the yield curve in recent months.

Beyond the headline policy move, here are some additional observations on the September FOMC meeting.

1. The FOMC kept its asset purchase program intact. Its post-meeting statement said the economy continues to expand "at a solid pace," while the unemployment rate has moved higher but remains at a low level. Policymakers have greater confidence that inflation is moving toward the Fed's 2% target. The decision was not unanimous, as FOMC member Michelle Bowman preferred to implement a 25-bp cut; this was the first dissent by a Fed Governor since 2005, according to Bloomberg.

2. Some clues to the pace and size of future cuts were offered by Fed Chair Jerome Powell in his press conference after the FOMC meeting. While the 50-bp cut showed that policymakers weren't "behind the curve," Powell said no one should look at the September 18 rate reduction and think "that this is the new pace," signaling that a sustained run of similar-sized moves is not in the cards.

3. Further, the so-called "dot plot" from FOMC members issued on September 18 showed a median year-end projection for the fed funds rate of 4.38%, versus an expectation of 5.13% in June. The median estimate for the end of 2025 decreased to 3.38% from 4.13%. FOMC members also forecast a higher year-end unemployment rate (4.4% versus 4.0% in June) but a slower pace of core inflation (2.6% versus 2.8%).

4. Based on movements in the two-year Treasury yield on September 18, markets have priced in approximately 70 bps of cuts at the final two FOMC meetings of the year (November and December)—ahead of the Fed's own projection of an additional 50 bps.

5. We would note that this Fed easing cycle is different from previous instances in which the central bank was responding to a significant weakening in economic growth. This time, policymakers have moved decisively to forestall potential weakness in the economy. We think this is broadly supportive for risk assets.

Investment Implications

With the first rate cut of the current policy cycle finally out of the way, where might investors focus their attention? Here are some areas to consider:

Fixed Income

Core and core-plus strategies may be particularly well positioned after the Fed's move. Short-duration bonds continue to have a favorable risk/return profile in the current rate environment. Blending core bonds with short-term credit may provide a way to realize attractive income while mitigating rate volatility.

A "soft landing" scenario, in which the Fed's policy moves enable the economy to remain on solid footing, presents a positive environment for credit. Among the approaches to consider are multi-sector bond, short duration high yield, and opportunistic credit strategies.

Equities

We continue to emphasize investing in quality companies with durable competitive advantages. We do this in growth and value stocks, and in U.S. and non-U.S. companies. We also believe companies in the innovation space, characterized by rapid revenue and earnings growth, are also well positioned for the current environment.

LORD ABBETT®

Glossary Definitions

A **basis point** is one one-hundredth of a percentage point.

Duration is a measure of the sensitivity of the price (the value of principal) of a fixed income investment to a change in interest rates.

The **Federal Reserve (Fed)** is the central bank of the United States. **The Federal Open Market Committee** (FOMC) is the branch of the Fed that determines the direction of monetary policy in the United States.

The federal funds rate is the interest rate at which depository institutions lend reserve balances to other depository institutions overnight on an uncollateralized basis. **Fed funds futures** are financial futures contracts based on the federal funds rate and traded on the Chicago Mercantile Exchange. These futures are considered a direct reflection of collective marketplace insight regarding the future course of the Federal Reserve's monetary policy.

Important Information

The information contained herein is provided by Lord, Abbett & Co. LLC ("Lord Abbett"). Lord Abbett is a registered investment adviser under the U.S. Investment Advisers Act of 1940 (the "Advisers Act"), as amended, and is subject to the Advisers Act rules and regulations adopted by the U.S. Securities and Exchange Commission ('SEC"). Registration with the SEC does not imply a particular ability or training. Lord Abbett is a global asset manager with headquarters in Jersey City, New Jersey.

Certain information provided in the material has been obtained from third party sources and such information has not been independently verified by Lord Abbett. No representation, warranty, or undertaking, expressed or implied, is given to the accuracy or completeness of such information by Lord Abbett or any other person. While such sources are believed to be reliable, Lord Abbett does not assume any responsibility for the accuracy or completeness of such information. Lord Abbett does not undertake any obligation to update the information contained herein as of any future date.

Certain information contained in the material constitutes "forward-looking statements," which can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "project," "estimate," "intend," "continue," or "believe," or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events, results or actual performance may differ materially from those reflected or contemplated in such forward-looking statements. Nothing contained in the material may be relied upon as a guarantee, promise, assurance or a representation as to the future.

Market forecasts and projections are based on current market conditions and are subject to change without notice. Projections should not be considered a guarantee.

Past performance is not a reliable indicator or guarantee of future results. All investments involve risk, including the loss of capital.

The views and opinions expressed are those of the Lord Abbett author as of the date of the material, and do not necessarily represent the views of the firm as a whole. Any such views are subject to change at any time based upon market or other conditions and Lord Abbett disclaims any responsibility to update such views. References to specific asset classes and financial markets are for illustrative purposes only. This material is not intended to be relied upon as a forecast, research or investment advice. Neither Lord Abbett nor the Lord Abbett author can be responsible for any direct or incidental loss incurred by applying any of the information offered.

The information in this material does not constitute a distribution, an offer, an invitation, a personal or general recommendation or solicitation in any jurisdiction. This material has not been reviewed or approved by any regulatory authority in any jurisdiction.

None of the information provided should be regarded as a suggestion to engage in or refrain from any investment-related course of action as neither Lord Abbett nor its affiliates are undertaking to provide impartial investment advice, act as an impartial adviser, or give advice in a fiduciary capacity.

Mentions of specific companies are for reference purposes only and are not meant to describe the investment merits of, or potential or actual portfolio changes related to, securities of those companies.

Unless otherwise noted, all discussions are based on U.S. markets and U.S. monetary and fiscal policies.

Equity Investing Risks

The value of investments in equity securities will fluctuate in response to general economic conditions and to changes in the prospects of particular companies and/or sectors in the economy. While growth stocks are subject to the daily ups and downs of the stock market, their long-term potential as well as their volatility can be substantial. Value investing involves the risk that the market may not recognize that securities are undervalued, and they may not appreciate as anticipated. Smaller companies tend to be more volatile and less liquid than larger companies. Small cap companies may also have more limited product lines, markets, or financial resources and typically experience a higher risk of failure than large cap companies.

Fixed-Income Investing Risks

The value of investments in fixed-income securities will change as interest rates fluctuate and in response to market movements. Generally, when interest rates rise, the prices of debt securities fall, and when interest rates fall, prices generally rise. High yield securities, sometimes called junk bonds, carry increased risks of price volatility, illiquidity, and the possibility of default in the timely payment of interest and principal. Bonds may also be subject to other types of risk, such as call, credit, liquidity, and general market risks. Longer-term debt securities are usually more sensitive to interest-rate changes; the longer the maturity of a security, the greater the effect a change in interest rates is likely to have on its price.

Note to Switzerland Investors: In Switzerland, the Representative is ACOLIN Fund Services AG, Leutschenbachstrasse 50, CH-8050 Zurich, whilst the Paying Agent is Bank Vontobel Ltd., Gotthardstrasse 43, CH-8022 Zurich. The prospectus, the key information documents or the key investor information documents, the instrument of incorporation, as well as the annual and semi-annual reports may be obtained free of charge from the representative. In respect of the units offered in Switzerland, the place of performance is at the registered office of the representative. The place of jurisdiction shall be at the registered office of the representative or at the registered office or domicile of the investor.

Note to European Investors: This communication is issued in the United Kingdom and distributed throughout the European Union by Lord Abbett (Ireland) Limited, UK Branch and throughout the United Kingdom by Lord Abbett (UK) Ltd. Both Lord Abbett (Ireland) Limited, UK Branch and Lord Abbett (UK) Ltd are authorized and regulated by the Financial Conduct Authority.

A decision may be taken at any time to terminate the arrangements made for the marketing of the Fund in any EEA Member State in which it is currently marketed. In such circumstances, Shareholders in the affected EEA Member State will be notified of this decision and will be provided with the opportunity to redeem their shareholding in the Fund free of any charges or deductions for at least 30 working days from the date of such notification.

LORD ABBETT®

Note to Singapore Investors: Lord Abbett Global Funds I plc (the "Company") and the offer of shares of each sub-fund of the Company do not relate to a collective investment scheme which is authorized under Section 286 of the Securities and Futures Act, Ch. 289 of Singapore ("SFA") or recognized under Section 287 of the SFA, and shares in each sub-fund of the Company are not allowed to be offered to the retail public. Pursuant to Section 305 of the SFA, read in conjunction with Regulation 32 of and the Sixth Schedule to the Securities and Futures (Offers of Investments) (Collective Investment Schemes) Regulations 2005 (the "Regulations"), the Lord Abbett Global Multi-Sector Bond Fund, the Lord Abbett High Yield Fund, the Lord Abbett Short Duration Income Fund, the Lord Abbett Ultra Short Bond Fund, the Lord Abbett Climate Focused Bond Fund, the Lord Abbett Emerging Markets Corporate Debt Fund and the Lord Abbett Multi Sector Income Fund have been entered into the list of restricted schemes maintained by the Monetary Authority of Singapore for the purposes of the offer of shares in such sub-funds made or intended to be made to relevant persons (as defined in section 305(5) of the SFA), or, the offer of shares in such sub-funds made or intended to be made in accordance with the conditions of section 305(2) of the SFA. These materials do not constitute an offer or solicitation by anyone in Singapore or any jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation.

Note to Hong Kong Investors: The contents of this material have not been reviewed nor endorsed by any regulatory authority in Hong Kong. An investment in the Fund may not be suitable for everyone. If you are in any doubt about the contents of this material, you should consult your stockbroker, bank manager, solicitor, accountant or other financial adviser for independent professional advice. The Fund is not authorised by the Securities and Futures Commission ("SFC") in Hong Kong pursuant to Section 104 of the Securities and Futures Ordinance (Cap 571, Laws of Hong Kong) ("SFO"). This material has not been approved by the SFC in Hong Kong, nor has a copy of it been registered with the Registrar of Companies in Hong Kong and, must not, therefore, be issued, or possessed for the purpose of issue, to persons in Hong Kong other than (1) professional investors within the meaning of the SFO (including professional investors as defined by the Securities and Futures (Professional Investors) Rules); or (2) in circumstances which do not constitute an offer to the public for the purposes of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap 32, Laws of Hong Kong) or the SFO. This material is distributed on a confidential basis and may not be reproduced in any form or transmitted to any person other than the person to whom it is addressed.

Lord, Abbett & Co. LLC | 30 Hudson Street | Jersey City, NJ 07302-4804 | T 1.888.522.2388 | lordabbett.com

ME-FEDCUT_NON_US
09-24