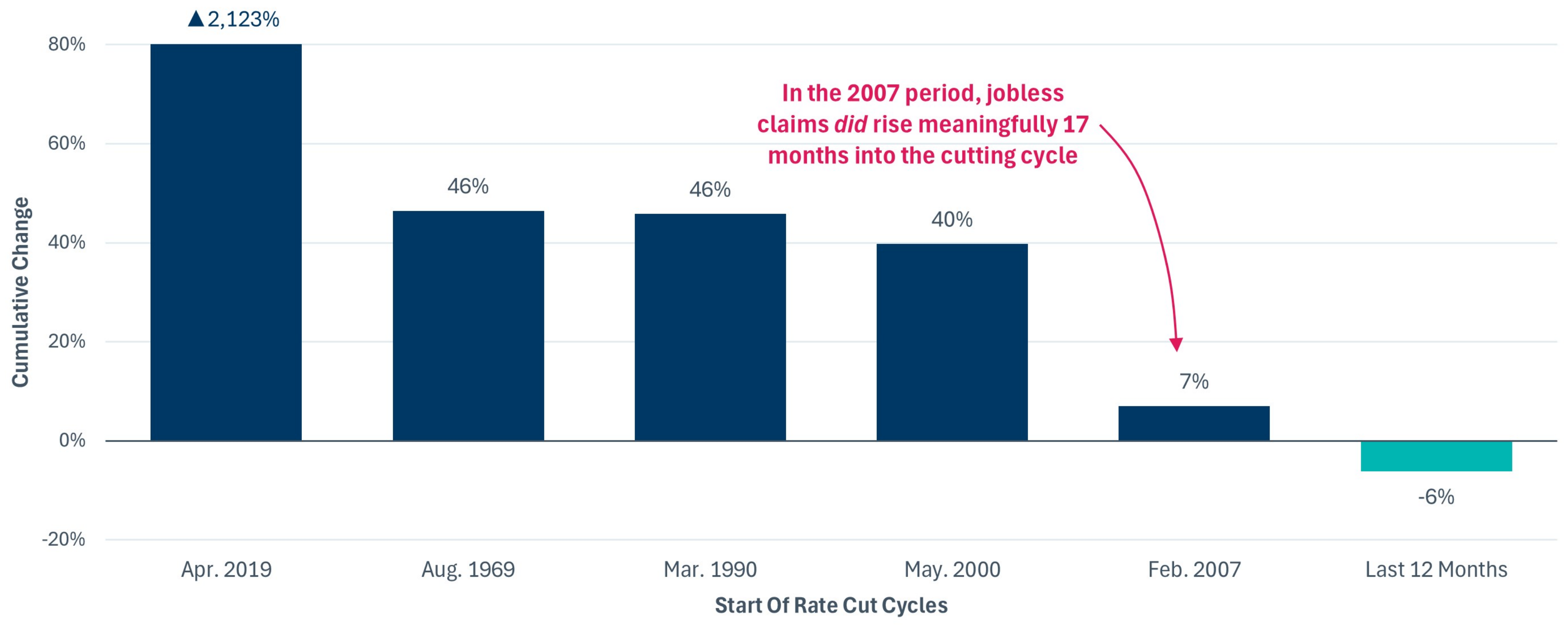
Chart of the Week

Payden&Rygel

Tenuous Claims

Initial Jobless Claims During Fed's 12-Month Rate Cut Cycles Of >200 Basis Points

For The Week Ending 09/20/2024



Source: Bureau of Labor Statistics

This week, the Federal Open Market Committee (FOMC) chose to reduce rates by 50 basis points (bps), lowering the fed funds rate range to 4.75-5.00%. Policymakers justified the larger-than-expected cut with concerns about a softening labor market. In turn, bond markets interpreted the September rate cut as a sign that the Fed will continue to move quickly, pricing in over 200 bps of cuts by July 2025. How likely will the priced-in cuts be realized? Historically, when the Fed slashed rates by 200 basis points or more within 12 months, initial jobless claims, a proxy for layoffs, rose by an average of 35% cumulatively over the same period. Interestingly, this week's data showed initial jobless claims dipped to their lowest level since May (+219k). Further, layoff activity is *down* 6% compared to year-ago levels. So, either layoffs will start picking up rapidly (validating the rate cuts already priced in), or the Fed may go slower than market expectations. In the interim, if the Fed keeps cutting without convincing signs of an economic downturn, it could be a boon for financial markets.