

# Liquidity letter

n°132 | 19 Dec 2024

## Fed: further decline, but 2025 remains uncertain

### Caution is the watchword

The Federal Reserve announced a 25 bp rate cut on Wednesday evening, bringing it to a range of 4.25% to 4.50%. Following this announcement, the central bank will have cut rates by 100 bp since September.

The decision was not unanimous, though, as one of the members, Cleveland Fed President Beth Hammack, spoke out against a further rate cut, while inflation rose slightly in November to 2.7% and is not expected to fall back to 2% before the end of 2026, according to Fed forecasts.

The Fed's latest quarterly economic projections report shows that its officials expect PCE inflation to reach 2.4% this year and 2.5% in 2025. It also forecasts slightly stronger economic growth and lower unemployment next year than was anticipated three months ago.

These new forecasts imply a much more cautious pace in the rate-cutting cycle in 2025, in the absence of visibility on Donald Trump's announced fiscal policy and its possible inflationary impact. But without knowing the duration and scale of these measures, or the potential trade retaliation, it is impossible to predict their effects for the time being, stressed Jerome Powell.



### Number of the week

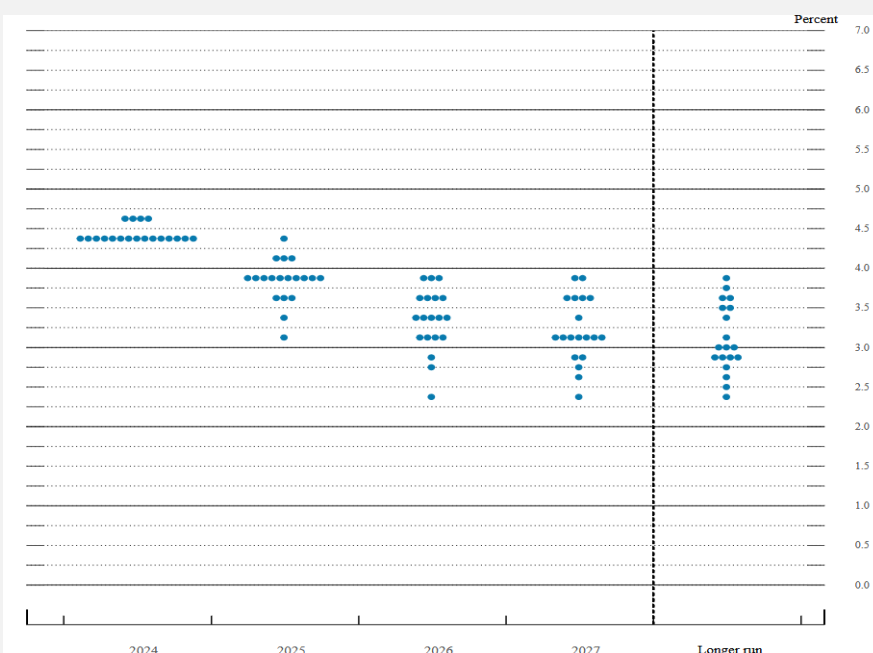
**-25 bp**

Fed rate cut (December)



**Worried about the return of Donald Trump?**

FOMC members' assessment



Source : Federal Reserve

**This latest rate cut comes almost a month to the day before future US President Donald Trump takes office.**

It's a prospect that leaves many American economic players perplexed.

10 out of 19 members now expect only two rate cuts in 2025, a total of 50 basis points. In addition, Jerome Powell confirmed during his press conference that the central bank would henceforth adopt a more cautious approach.

In 2026, projections for rate cuts show that members expect rates to fall to between 3.25% and 3.50%.

Jerome Powell also made it clear that, after the December decline, the Fed had entered a "new phase" in which it had to be much more "cautious".

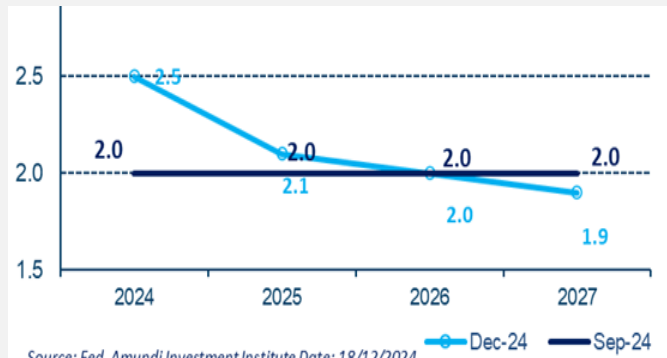


## United States: economic outlook

The Fed now expects growth of 2.1% for 2025 (versus 2% forecast three months earlier), with the unemployment rate remaining low and virtually stable at 4.3%, just 0.1 percentage points higher than this year.

U.S. jobless claims fell in the week to December 14, to 220,000 from 242,000 the previous week, the Labor Department announced on Thursday. Michelle Bowman believes that the neutral rate, i.e. the rate that has no supporting or slowing influence on economic activity, could be higher than initially expected and perhaps even close to the current level, but this will depend on the economic policy implemented by Donald Trump.

Projection du PIB américain par la Fed(%)



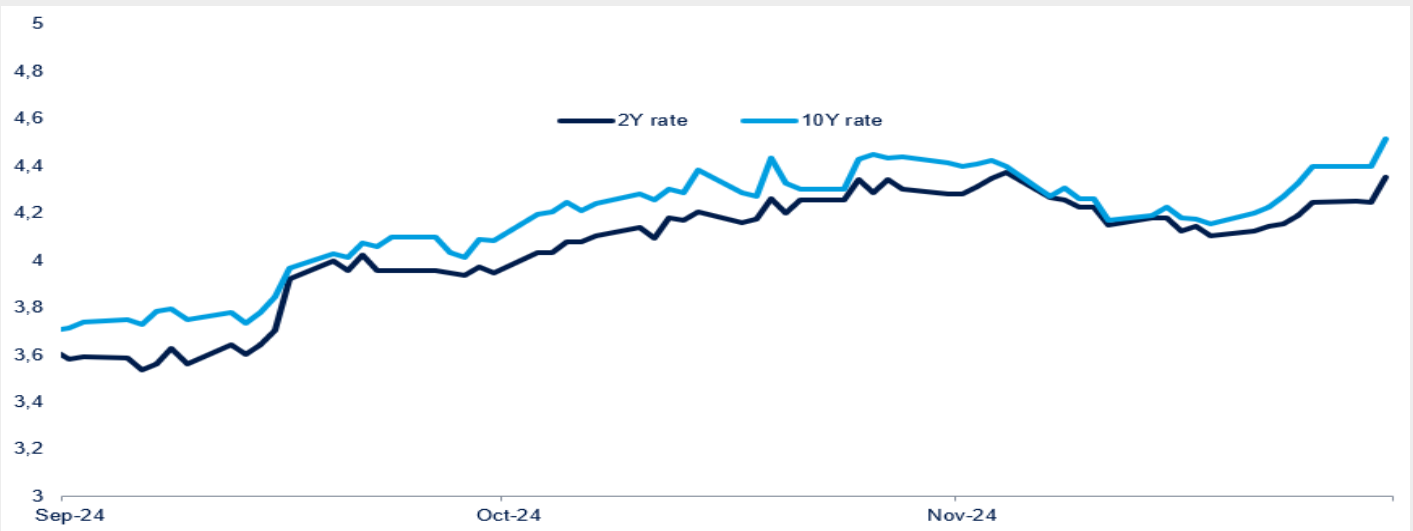
*Inflation has slowed significantly over the past two years, but remains relatively high compared with our long-term objective of 2%.*



*Jerome Powell, President of the Fed, 18 December 2024*

## Market Impact

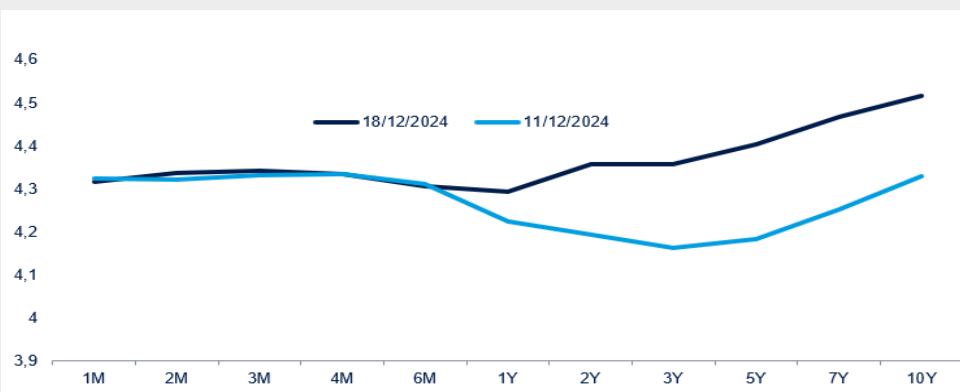
US 2-year and 10-year rates (%)



Following the announcement of the Fed rate cut, US 2-year and 10-year yields reacted slightly. Thus, the 2-year rate (sensitive to monetary policy) rose by 16 bp over 1 week, while the 10-year rate rose by 18 bp over the same period.

Source : Amundi, Bloomberg

US yield curve (%)



Continued steepening of the US yield curve.

Source : Amundi, Bloomberg



## Moody's downgrades France's credit rating

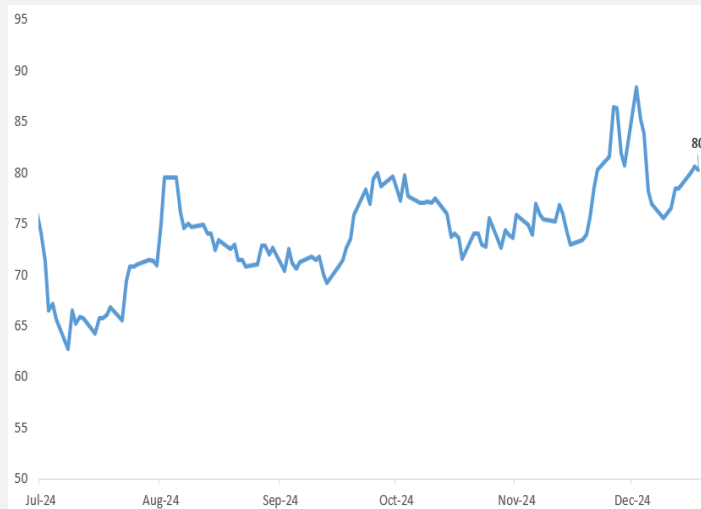
Moody's has downgraded France's sovereign rating from Aa2 to Aa3, with a stable outlook.

Moody's justifies this decision by pointing to the worsening outlook for French public finances, believing that the French political situation will make it difficult to pass the budget. The rating agency also suggested that the effectiveness of the planned budget reforms will largely depend on the government's ability to overcome parliamentary blockages and calm current uncertainties.

However, she assured us that the appointment of François Bayrou and the new government's clear commitment to reducing the public deficit are an appropriate response.

In lowering France's rating, Moody's joins the assessment of the other two major agencies, S&P (AA- with stable outlook) and Fitch (AA- with negative outlook), which also rate France with the equivalent of a 17/20.

### Spread 10 years France - Germany



France-Germany 10-year spread continues to widen amid political instability in France.

Source : Amundi, Bloomberg

### News



▶ **Euro Zone** | S&P Composite PMI at 49.5 (Nov)

▶ **Euro Zone** | Final inflation at 2.2% (Nov)

### Agenda



▶ **23 December** | Publication of Spain's GDP (Sept)

▶ **26 December** | US weekly jobless claims

### Disclaimer

This publication is intended for institutional clients only and may not be reproduced, in whole or in part, or communicated to third parties without our permission. Published by Amundi Asset Management Société par Actions Simplifiée SAS with capital of €1,143,615,555 - 437 574 452 RCS Paris. Portfolio management company approved by the AMF (Autorité des Marchés Financiers) n°GP 04000036. Registered office: 91 93, boulevard Pasteur 75015 Paris France. The information contained in this publication is not intended for distribution to, or use by, any person or entity in any country or jurisdiction where to do so would be contrary to law or regulation or which would subject Amundi or its subsidiaries to any registration requirements within those jurisdictions. Not all products or services are necessarily registered or authorized in all countries or available to all clients. The data and information contained in this publication are provided for information purposes only. Nothing contained in this publication constitutes an offer or solicitation by any member of the Amundi group to provide investment advice or services or to buy or sell financial instruments. The information contained in this publication is based on sources we believe to be reliable, but we do not warrant that it is accurate, complete, valid or up to date and it should not be relied upon as such for any purpose.

Follow-us

