

Enclosed we put into context some of the key results of the August 2023 US Macro Strategy Survey.

Fed rates-related questions

- *Last hike?* There was a nearly uniform distribution between July, September, and November being the last hike. However, the majority centered around November (which would be consistent with the Fed's SEP dots of one more hike to 5.625% and consistent with a skip/alternating cycle). However the 2nd largest vote was that the July-2023 hike may have been the last hike of the cycle.

	July. 2023	Sept. 2023	Nov. 2023	Dec. 2023	Jan. 2024
Q1: When is the Fed's last hike?	27%	25%	30%	8%	10%

- *First cut?* The skew for cuts is a mirror opposite to that of the prior table above, in that the cut skew is leaning toward the right (suggesting that most clients expect cuts will start later and after a number of quarters post the last hike in 2023). Historically the average time between last hike and first cut has ranged from 6 to 9 months. However, this period has been anything but average.

	4Q 2023	1Q 2024	2Q 2024	3Q 2024	4Q 2024
Q2: When will the Fed first cut rates?	2%	11%	25%	35%	27%

- *Where will Fed Funds rates settle in the next easing cycle?* There is more of a bell-shaped curve for where most respondents expect rates to go in an easing cycle. That said, the majority are still anchored around 3-4% rates. That would be one of the shallowest easing cycles versus history.

	Zero rate policy	1-to-2%	2-to-3%	3-to-4%	4-to-5%
Q6: If the Fed ease what range will the FF rate settle?	1%	10%	37%	42%	10%

Fed balance-sheet related questions

- *When the Fed starts cutting rates again, will they stop shrinking the balance-sheet (end QT)?* The majority said no. Recall this would be opposite of what the Fed has traditionally done in the past. The Fed has maintained, until recently, that if they are easing policy, that rates and the balance-sheet policy would be consistent (i.e. if cutting rates either keep the balance-sheet constant or do QE if needed) and vice-versa. So if they ease via cutting rates but keep shrinking the balance-sheet, that would be reducing monetary aggregates but lowering rates. However, given how much the RRP expanded and bank reserves remain ample, this time the Fed may be able to keep QT in place while cutting rates. In our view, it will likely come down to what motivates them to ease.

	Yes	No
Q5: When the Fed starts cutting, will they stop shrinking the balance sheet?	43%	57%

- *When will the Fed stop shrinking the balance-sheet (end QT)?* This is slightly consistent with the view that cuts will start later next year. However the gap between cutting rates and ending QT is pretty tight (a quarter). This is a difficult answer to capture in this format given its all nuanced. If the Fed were able to cut and keep QT in place, if cuts start earlier in 2024, then stopping QT later in the year (and perhaps scaling out versus a hard stop) would be acceptable. All about timing.

	4Q 2023	1Q 2024	2Q 2024	3Q 2024	4Q 2024
Q4: When will Fed stop shrinking its balance sheet?	3%	13%	17%	20%	47%

Market-related questions

- *Where will the 10yr UST yield be at the end of 2023?* Most participants expect 10yr UST yields to settle in a tight range (3.75-4%) but the majority see rates being in a wide 3-4% by year-end. However, only 25% expect 10yr UST yields to stay above current market levels of around 4%.

	3.0-3.25%	3.25-3.5%	3.5-3.75%	3.75-4.0%	Higher than 4.0%
Q7: Where will the 10yr UST yield be at the end of 2023?	5%	12%	23%	35%	25%

- *Where will the IG Cash Index spread be at the end of 2023?* The majority of respondents view IG spreads as being tight at current levels (around 120bps) and see wider spreads into year-end.

	100-125bp	125-150bp	150-175bp	Greater than 175bp
Q8: Where will IG Cash Index spreads be at end of 2023?	32%	49%	17%	2%

- *What will be the best performing fixed income asset class from now until year-end?* High Yield came in as the top choice, but money markets and mortgages were close 2nd and 3rd selections.

	ABS	High Yield	IG Credit	Money Markets	Treasuries	Mortgages
Q9: What will be the best performing US fixed income asset class into year-end?	7%	27%	10%	23%	11%	22%

- *What will be the best performing overall asset class from now until year-end?* Most participants expect stocks to continue to be the best performing asset class, followed by overall fixed income.

	Commodities	Fixed Income	Emerging Markets	Global Stocks	Overall Credit	US Stocks
Q10: What will be the best performing cross market asset class into year-end?	13%	21%	8%	6%	15%	37%

Economy-related questions

- *Recession-related questions...* Most do not see a nationwide recession in the foreseeable future. However, the majority think that certain industries will be experiencing recession-like conditions. And if we were to see a recession, the majority think that it will take place in the first half of 2024.

	No	No, but recession-like conditions will occur in some industries	No, we get stagflation with low growth	Yes
Q11: Is the US on the verge of a recession?	12%	38%	15%	35%

	Currently in Recession	2H 2023	1H 2024	2H 2024	1H 2025	No Recession (in foreseeable future)
Q12: If it occurs, when will a recession start?	5%	9%	30%	24%	10%	24%

What is the natural state of US inflation conditions ahead? This is one of the more interesting data responses. An overwhelming majority believe that US inflation will stay above the Fed's 2% target.

	Disinflation (0-2%)	Lowflation (1-3%)	Stagflation (>4%)	Stagflation-lite (2-4%)
Q13: What is the natural state of US inflation?	5%	22%	5%	68%

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