
ONE PLUS ONE EQUALS THREE

Kevin Flanagan – Head of Fixed Income Strategy
06/12/2019

To watch the money and bond markets of late, there is one development that stands out quite clearly: the [Federal Reserve \(Fed\)](#) *has* to cut [interest rates](#). In fact, from the markets' perspective, trade uncertainty plus economic weakness equals *three rate cuts*. Or quite simply: 1+1=3.

What is interesting to note about the money and bond markets' expectations is the recent shift in sentiment. At first, the Fed was "on hold" for this year and a rate cut or two was projected for 2020. That line of thinking then morphed into an anticipated rate cut this year and two for 2020, then into an expected two rate cuts in 2019, followed by an additional move next year. After the jobs report in May, [Fed Funds Futures](#) have slipped into three-rate-cut territory for this year alone, as of this writing.

With the June [FOMC](#) meeting exactly a week away, we should find out sooner rather than later where the Fed actually stands in this debate. Up to now, the monetary policy makers did not seem to share in the markets' vision. Consider some of the quotes attributed to the Fed troika (Chairman Powell, Vice Chairman Clarida and New York Fed President Williams) just last week. It was widely reported that Powell was open to a rate cut, but he never uttered those words, instead using time-tested policy phrases such as "closely monitoring" and "act as appropriate." Meanwhile, Clarida said, "we can't be handcuffed to fluctuations in markets" and Williams chimed in with, "doesn't bother me if market and Fed views differ." But perhaps my favorite tagline from the New York Fed president was, "I don't see the [yield curve](#) inversion as [recession](#) oracle."

So, what about that jobs report? Was it that weak? In no way am I trying to explain away this number—it *was* softer than expected, but perspective in these [volatile](#) market times is needed more than ever. Even though the nonfarm payroll (+75,000) and average hourly earnings (+3.1%) missed consensus estimates, they do not rise to the level of alarming. Interestingly, in the Fed's Beige Book release last week, it was mentioned that "employment is still seen constrained by tight labor market ." For the record, the unemployment rate remained at a 50-year low of 3.6%. Food for thought, no?

Conclusion

As we saw earlier this year, the Fed can change its tune quickly, but history tells us it won't respond to one month's worth of jobs numbers, especially when the "economy is in a good place." I do look for changes in the [blue dots](#), however. First up, the 2020 rate hike has to come off the table. I think the likeliest Fed scenario for next week is: "on hold" for this year, with the plot building for rate cuts as the next policy move. And you thought summertime in the bond market would be boring.

Unless otherwise stated, data source is Bloomberg, as of June 7, 2019.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

For more investing insights, check out our [Economic & Market Outlook](#)

View the online version of this article [here](#).

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an “as is” basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the “MSCI Parties”) expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only. You cannot invest directly in an index.

DEFINITIONS

Federal Reserve: The Federal Reserve System is the central banking system of the United States.

Interest rates: The rate at which interest is paid by a borrower for the use of money.

Fed fund futures: A financial instrument that let's market participants determine the future value of the Federal Funds Rate.

Federal Open Market Committee (FOMC): The branch of the Federal Reserve Board that determines the direction of monetary policy.

Yield curve: Graphical Depiction of interest rates on government bonds, with the current yield on the vertical axis and the years to maturity on the horizontal axis.

Recession: two consecutive quarters of negative GDP growth, characterized generally by a slowing economy and higher unemployment.

Volatility: A measure of the dispersion of actual returns around a particular average level.

Blue dots: the midpoint target range/level of the FOMC participants' projections for the future Federal Funds Rate.