MARKET PULSE

TAM MARKET INSIGHTS

MAY 5, 2023

MAY FED MEETING

TOM WALD, CFA®
Chief Investment Officer
Transamerica Asset Management, Inc.

As expected on May 3, the Federal Reserve raised the federal funds rate by 0.25% to a target range of 5.00–5.25%. This was the 10th meeting since March of last year in which the Fed hiked rates, reflecting what is now a cumulative increase of 5% on the fed funds rate since that time. Following the Fed's post-meeting statement and Chair Jerome Powell's press conference, we believe the following points are important for investors:

- **In our judgment, the Fed has left the door wide open for a pause on raising rates at the upcoming June meeting and a potential conclusion to the current tightening cycle.** Here we point to a key change in the statement language in which the wording, "The Committee anticipates that some additional policy firming may be appropriate," was changed to, "In determining the extent to which additional policy firming may be appropriate." While Chair Powell said at the press conference that "a decision on a pause was not made," he did make a specific point to call out the new language in the statement, referring to it as "a meaningful change."

- **Despite this apparent acknowledgment that the probabilities are now high for no further hikes at the upcoming June meeting, Chair Powell did throw cold water on the notion of cutting rates later in the year.** When asked about this prospect, the Fed Chair replied, "that inflation is going to come down not so quickly … it would not be appropriate to cut rates and we won't cut rates." While current trading in the federal funds futures markets currently reflect rate cuts between July and December, we continue to believe the Fed is unlikely to reduce the fed funds rate anytime this year.

- **Recent bank failures will likely play a role in the Fed's decision-making going forward.** It is our judgment that the collapses of Silicon Valley, Signature, and First Republic banks will result in more restrictive credit conditions and lending policies throughout the banking industry. This in turn is likely to spill over into the broader economy and increase the probabilities of a recession beginning by year-end. These changing conditions should further accelerate the Fed's potential decision to conclude rate hikes in the months ahead.

- **Given uncertainties in the banking sector and their potential impacts on the broader economy, we envision the Fed is likely to step back at this point and let the past year's rate hikes fully filter through the economy.** The pending effects of the past year's rate hikes could also dovetail with declining inflation trends for consumer price index and personal consumption expenditures headline and core reports. We expect core rates of inflation to mitigate toward sub-4% levels by year-end, which, if experienced, should further confirm the end of Fed rate hikes.

- **In summary, we are maintaining our year-end target on the fed funds rate at a lower bound of 5.00%, reflecting no further rate hikes from its current level but no future rate cuts this year either.** Wild cards potentially impacting this target upward or downward would include monthly inflation reports noticeably higher than expected and/or additional bank collapses creating a wider impact throughout the economy.

TRANSAMERICA®

THOMAS R. WALD, CFA®

CHIEF INVESTMENT OFFICER
TRANSAMERICA ASSET MANAGEMENT, INC.

Tom oversees investment and mutual fund development and the sub-adviser selection process. He heads Transamerica Asset Management's investment thought leadership with advisors, clients, and media. Tom has more than 30 years of investment experience and has managed large mutual funds and sub-advised separate account portfolios. Tom holds a bachelor's degree in political science from Tulane University and an MBA in finance from the Wharton School at the University of Pennsylvania.

Visit: transamerica.com/market-outlook

Investments are subject to market risk, including the loss of principal. Asset classes or investment strategies described may not be suitable for all investors.

Past performance does not guarantee future results. Indexes are unmanaged and an investor cannot invest directly in an index.

Equities are subject to market risk meaning that stock prices in general may decline over short or extended periods of time. Indexes are unmanaged and an investor cannot invest directly in an index.

Fixed income investing is subject to credit rate risk, interest rate risk, and inflation risk. Credit risk is the risk that the issuer of a bond won't meet their payments. Inflation risk is the risk that inflation could outpace a bond's interest income. Interest rate risk is the risk that fluctuations in interest rates will affect the price of a bond. Investing in floating rate loans may be subject to greater volatility and increased risks.

Growth stocks typically are particularly sensitive to market movements and may involve larger price swings because their market prices tend to reflect future expectations. Growth stocks as a group may be out of favor and underperform the overall equity market for a long period of time, for example, while the market favors "value" stocks. Value investing carries the risk that the market will not recognize a security's intrinsic value for a long time or that an undervalued stock is actually appropriately priced.

Investments in global/international markets involve risks not associated with U.S. markets, such as currency fluctuations, adverse social and political developments, and the relatively small size and lesser liquidity of some markets. These risks may be greater in emerging markets.

The information included in this document should not be construed as investment advice or a recommendation for the purchase or sale of any security. This material contains general information only on investment matters; it should not be considered as a comprehensive statement on any matter and should not be relied upon as such. The information does not take into account any investor's investment objectives, particular needs, or financial situation. The value of any investment may fluctuate. This information has been developed by Transamerica Asset Management, Inc. and may incorporate third-party data, text, images, and other content to be deemed reliable.

Comments and general market-related projections are based on information available at the time of writing and believed to be accurate; are for informational purposes only, are not intended as individual or specific advice, may not represent the opinions of the entire firm, and may not be relied upon for future investing. Investors are advised to consult with their investment professional about their specific financial needs and goals before making any investment decisions.

The 10-Year U.S. Treasury bond is a U.S. Treasury debt obligation that has a maturity of 10 years.

S&P 500® Index: An unmanaged index of 500 common stocks primarily traded on the New York Stock Exchange, weighted by market capitalization.

Transamerica Asset Management, Inc. (TAM) is an SEC-registered investment adviser. The funds advised and sponsored by Transamerica Asset Management, Inc. include Transamerica Funds and Transamerica Series Trust. Transamerica Asset Management, Inc., is an indirect wholly owned subsidiary of Aegon N.V., an international life insurance, pension, and asset management company.

2885437

TRANSAMERICA®