NORTHERN TRUST
ASSET MANAGEMENT

MARKETS LINE UP SUMMER RATE CUTS

EURO SHORT TERM RATES

MONEY MARKET YIELDS

	ESTR				German Gov.			
	O/N	3M	6M	12M	1M	3M	6M	12M
Yield (%)	3.90	3.85	3.71	3.41	3.62	3.66	3.60	3.33
M/M Change (%)	0.012	-0.042	-0.072	-0.084	-0.126	-0.081	-0.035	-0.084

Source: Bloomberg, data as at 28 March 2024

MARKET UPDATE

The European Central Bank (ECB) kept key interest rates unchanged in March, as widely expected by the markets. Greater focus was on the new staff macroeconomic projections, which indicated a softer path for headline and core inflation and near-term growth prospects. The Governing Council noted that most measures of inflation have declined further but stressed that domestic price pressures remain high. This is in part due to strong wage growth, which is a critical data point for the ECB's rate decisions (see Chart of the Month). President Christine Lagarde stressed the ECB's data-dependent approach, stating that they will know a little more in April and a lot more in June. This can be seen as a continuation of her guiding market participants towards a June cut, which aligns with our base case for the ECB.

PORTFOLIO POSITIONING

Our weighted average maturity (WAM) ended March at 38 days, up two days from the previous month. This was driven by attractive yields in the three- to six-month part of the curve, as the market gradually reduced the magnitude and pace of the upcoming cutting cycle. We also took some one-year floating trades to lock attractive yields. To remain well-diversified, we continued to roll our asset-backed commercial paper (ABCP) and government agency (SSA) positions. Following the conclusion of the ECB's operational framework, banks were more inclined to lend out for this quarter-end than the previous month-end. The month-end was orderly, as we purchased some SSAs in the very short end throughout March.

GBP SHORT TERM RATES

MONEY MARKET YIELDS

	SONIA				U.K. Gov.			
	O/N	3M	6M	12M	1M	3M	6M	12M
Yield (%)	5.19	5.18	5.09	4.87	5.22	5.25	5.15	4.48
M/M Change (%)	0.003	-0.026	-0.086	-0.135	-0.018	0.007	-0.084	-0.083

Source: Bloomberg, data as at 28 March 2024

MARKET UPDATE

The Bank of England (BoE) maintained the bank rate at 5.25% in March, with only one dissenting voice preferring a cut. This was the first time since September 2021 that nobody voted for a rate hike. Markets reacted strongly to the change of sentiment, fully pricing in three 25 basis points (bps) base reductions for the year. August remains the most likely month for the first cut, but pricing for June reflects a greater than 50% chance of a reduction ahead of the Summer. Governor Andrew Bailey signalled that the bank was "not yet at the point where we can cut interest rates, but things are moving in the right direction." UK Consumer Price Index (CPI) inflation fell to 3.4% in February from 4% in January, while core inflation fell to a two-year low of 4.5% from 5.1%. Services CPI, a key metric for the BoE, eased to 6.1% from 6.5%, which aligns with the BoE's latest inflation projections.

PORTFOLIO POSITIONING

By March's month-end, our WAM stood at 43 days, which aligned with our target. We continued to extend the duration in the three- to six-month part of the curve. We also purchased some one-year floaters at an average of SONIA+27 bps to capture attractive yields before the cutting cycle in the medium term. To remain well diversified, we added into our ABCPs and SSAs with names such as Dexia and LMA. As we approached the imminent month-end, we also purchased some very short-dated securities that provided yields higher than deposit and repo rates.

USD SHORT TERM RATES

MONEY MARKET YIELDS

	OIS				U.S. Gov.			
	O/N	3M	6M	12M	1M	3M	6M	12M
Yield (%)	5.33	5.32	5.24	5.03	5.37	5.37	5.32	5.03
M/M Change (%)	0.000	-0.024	-0.020	0.004	-0.029	-0.013	-0.002	0.026

Source: Bloomberg, data as at 28 March 2024

MARKET UPDATE

The Federal Reserve unanimously voted to leave interest rates unchanged in March. We took the main message to be that the Federal Open Market Committee remains on a careful transition toward rate cuts and that, before cutting, it still needs greater confidence that inflation is sustainably heading to 2%. Notably, the Summary of Economic Projections were updated, with GDP growth revised higher to 2.0%-2.4% from 1.2%-1.7% in December. The unemployment rate was revised lower to 3.9%-4.1% from 4.0%-4.2%. The Fed's favoured inflation gauge, core Personal Consumption Expenditures Price Index, was revised higher to 2.5%-2.8% from 2.4%-2.7%. Elsewhere, the Fed's "dot plot" of projections of the federal funds rate still indicated that the median outcome remained at three rate cuts for the year. Chair Jerome Powell noted the Fed makes decisions "meeting by meeting" and, therefore, has not made any decisions about rate cuts at future meetings.

PORTFOLIO POSITIONING

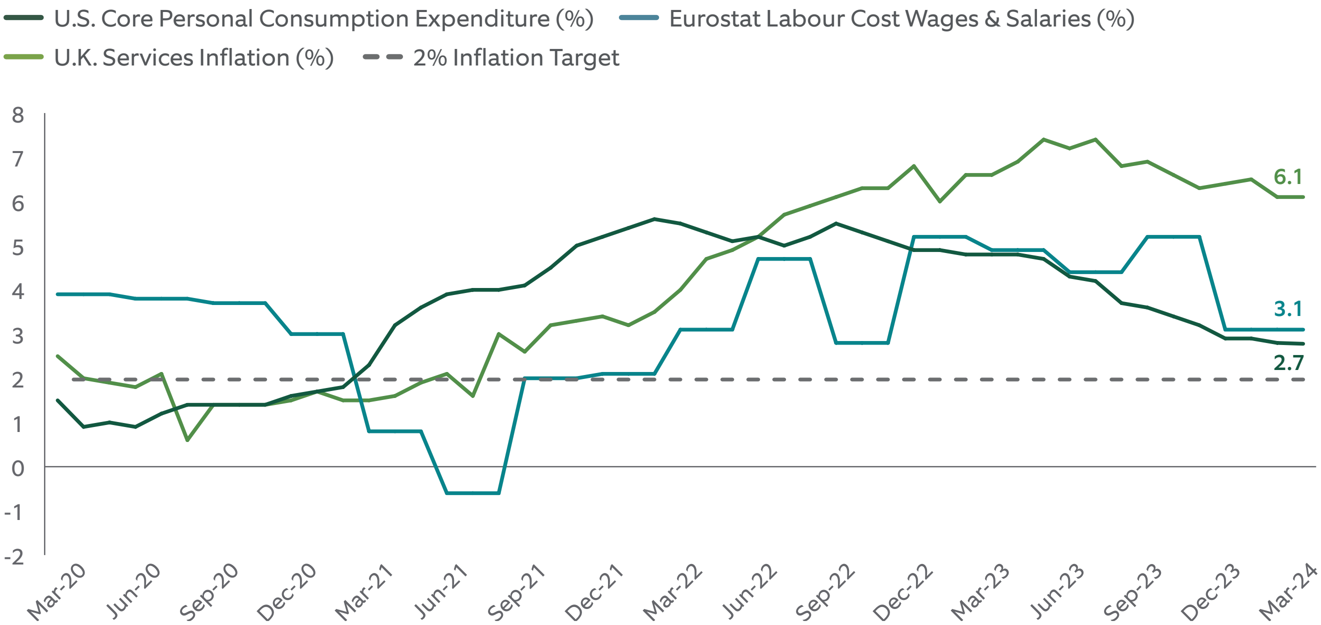
Our WAM ended March at 39 days, down six days from the previous month, as we continue to assess when the first interest rate cut for 2024 will take place. We focused on floating rate securities in the three-month and six-month part of the curve, where spreads paid better than fixed paper. Further along the curve, we are focused on fixed rate securities in the nine- to twelve-month space, as we are getting value for where rates would be a year from now. To remain well diversified, we continued to roll our ABCP and SSA positions.

LOOKING AHEAD

The well-communicated cautious rhetoric by central banks last month, coupled with the resilient economic data, continues to reduce the total amount of easing and the timing of the initial cut. Our view has consistently been that central bankers have been gaining confidence that their tightening cycles are impacting inflation. However, they require further information before they can declare victory. The persistence of critical indicators such as wage and services inflation reduces the likelihood that the central banks will move too quickly. The pace and timing of any cuts will be data-dependent. At this juncture, we believe further information on inflation and wages is required before cutting cycles commence, which will likely take several months. We believe this data dependence means central banks will approach the rate-cutting cycle cautiously.

WHEN IT COMES TO TACKLING INFLATION CENTRAL BANKS REMAIN DATA DEPENDANT

GLOBAL INFLATION INDICATORS



Source: Bloomberg as at 31/03/2024

NORTHERN TRUST ASSET MANAGEMENT
A Global Leader in Liquidity Solutions

Northern Trust liquidity strategies manage cash along the liquidity spectrum of investor needs — from operational to reserve to longer-term, strategic uses of cash. Strategies focus on high credit quality securities, structured in an effort to preserve principal, provide liquidity and generate a competitive return, and are available in multiple vehicles and custom solutions for institutional and individual investors.

$283.0B
ASSETS UNDER MANAGEMENT*

40+
YEARS MANAGING GLOBAL LIQUIDITY SOLUTIONS

*As of December 31 2023. Source: Northern Trust Asset Management (NTAM) Finance.

IMPORTANT INFORMATION

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