

Morning Market Tidbits

Yes, the Fed can move in an election year

In focus

We are frequently asked whether the Fed can begin a policy rate easing cycle in a Presidential election year. In short, the answer is yes, and history provides ample evidence in favor of this conclusion.

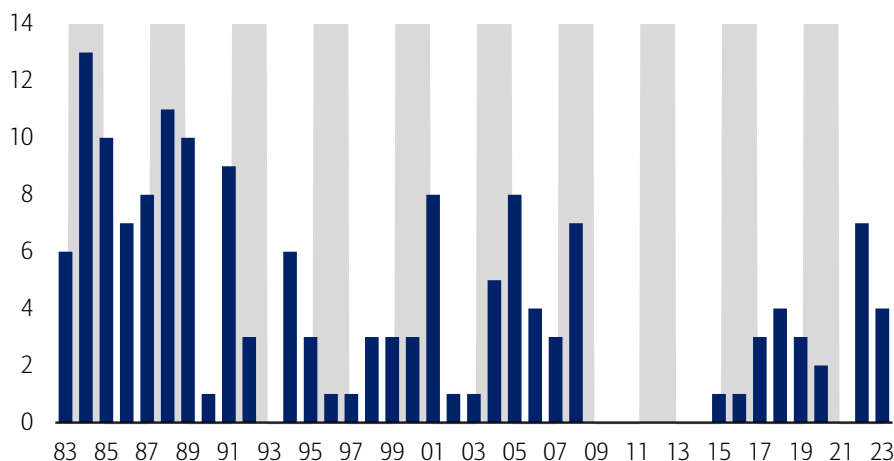
In Exhibit 1 we plot the number of policy rate adjustments to the federal funds rate by year. The vertical axis represents the number of cuts or hikes in a given calendar year while the horizontal axis represents each calendar year from 1983 to the present. We exclude decisions to alter Fed balance sheet policies and only plot changes in the federal funds rate as a proxy for policy changes.

Starting in 1983 is a bit of a stretch since the Fed did not begin to officially target the federal funds rate until 1993, but we think getting in a few more observations is worthwhile. After all, the Fed still had to adjust the federal funds rate when targeting growth in monetary aggregates so there is relatively close correlation between the periods.

As can be seen in Exhibit 1, the Fed has engaged in policy rate hikes or cuts in every Presidential election year except one (2012). In that year the federal funds rate was stuck at the zero lower bound and the Fed made three adjustments to its balance sheet policies instead (in June, September, and December). In every other Presidential election cycle, the Fed adjusted its policy rate between 1 and 13 times.

Exhibit 1: Number of policy rate adjustments (shaded years denote Presidential elections)

Fed has engaged in policy rate hikes or cuts in every Presidential election year except one



Source: FRB, BofA Global Research

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(Continued on next page)

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In addition, if the Fed were uneasy about moving during an election year, then we would expect to see more policy actions in years before or after presidential election cycles. Neither result shows up consistently in a way that would lead us to believe the Fed avoids talking tough decisions during election season.

Would it be easier for the Fed to move earlier in 2024 to avoid getting caught up in any election year politics? Yes, we think communication would be easier if data allowed the Fed to move earlier than later. Would it be more challenging for the Fed to communicate why an easing cycle would start in September or November, immediately prior to the election? Yes, we think it would be more challenging, but not impossible. Ultimately, we think the Fed will do what it believes to be right and history says if that means acting in an election year, then so be it.

Market Action

The Asian equity markets that we cover closed positively overnight. Looking at individual markets, the Korean Kospi, the Indian Sensex, the Shanghai Composite, the Hang Seng and the Nikkei rose 0.4%, 0.7%, 1.3%, 1.5% and 2.2% respectively.

As of 7:00 am ET, aggregate European stocks are up 0.17% and S&P500 futures are up 1.3%. In the bond markets, the US bond yields are down 1bp to 4.31%, and German Bund yields are down 1bp to 2.45%. The dollar index is at \$103.66. WTI crude oil prices are \$0.06 lower at \$77.85/bbl, and gold prices are at \$2029.04/oz.

Data Previews

February 22

Jobless claims, manufacturing and services PMI, existing home sales

Date	Time	Indicator	Period	BofA Estimate	Consensus	Previous
2/22/24	8:30	Initial Jobless Claims	Feb 17	215k	216k	212k
2/22/24	9:45	S&P Global US manufacturing PMI	Feb P	50.0	50.7	50.7
2/22/24	9:45	S&P Global US services PMI	Feb P	53.0	52.3	52.5
2/22/24	10:00	Existing Home Sales	Jan	3.95M	3.97M	3.78M

Source: BofA Global Research, Bloomberg

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US GDP Tracking

Exhibit 2: BofA US GDP tracking estimate (% q/q saar)

1Q GDP tracking down a tenth from the official forecast to 0.9% q/q saar & 4Q down three-tenths to 3.1% q/q saar largely due to lower-than-expected January retail sales and downward revisions to November and December

Date	Data release	GDP	Final Sales	PCE	Res. Inv.	Struct	Equip	IPP	Gov.	Exports	Imports	Net exports (level)	CIPI (level)
2/14/24	BofA official GDP forecast	1.0	1.5	1.5	-0.5	-1.0	1.0	2.0	1.0	1.0	1.5	-912.0	67.5
2/15/24	Retail Sales	0.8	1.1	1.2	-0.9	-1.0	1.0	2.0	1.0	1.0	1.5	-915.8	66.6
2/15/24	Industrial Production	0.9	1.2	1.3	-0.9	-1.2	0.9	2.0	1.0	1.0	1.5	-915.8	66.6
2/15/24	Retail Inventories, Import Export Prices	0.9	1.1	1.3	-1.4	-1.5	0.8	2.0	1.0	0.2	1.4	-924.6	73.8
	GDP tracking	0.9	1.1	1.3	-1.4	-1.5	0.8	2.0	1.0	0.2	1.4	-924.6	73.8
	Contribution to GDP growth (pp)			0.8	-0.1	0.0	0.0	0.1	0.2			-0.2	0.0
	BofA official GDP forecast	1.0	1.5	1.5	-0.5	-1.0	1.0	2.0	1.0	1.0	1.5	-912.0	67.5

Source: BofA Global Research. Our GDP tracking estimate reflects the mechanical aggregation of incoming data that directly informs the BEA's GDP calculations. The process is distinct from our official published GDP forecast. Boldface cells indicate where data have implications for tracking estimates.

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