March 2019

# UPDATES TO THE FED'S OUTLOOK

By Calvin Norris, CFA, Portfolio Manager and US Rates Strategist

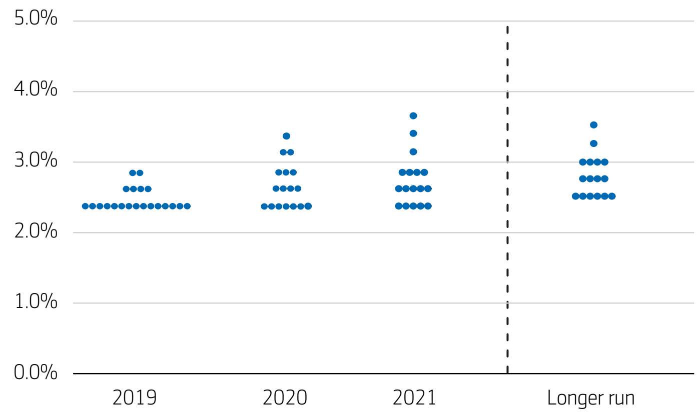
*The FOMC just concluded its March meeting, and surprised the market by dropping its "dot plot" from two hikes in 2019 down to no hikes, and from two hikes in 2020 to one hike (Exhibit 1). The FOMC kept its projections for no change to rates in 2021 and the longer-term "neutral" rate at 2.75%. This reduction was a hike less than market consensus anticipated.*

Additionally, the Committee announced it will end its balance sheet runoff by September of this year, while allowing mortgage-backed securities to continue to runoff (implying net purchases of Treasuries). While this was our base forecast, it appears to be a bit quicker than the market expected; also adding to the perceived dovishness of this meeting.

Treasuries have reacted by the belly and front-end rallying strongly, with the 30-year lagging the rest of the curve. Equities also like the news, as the Fed appears ready to bring the punch bowl back to the party.

It's worth noting that the Fed intends to remain data-dependent, with Brexit and China trade negotiation outcomes expected to be the primary drivers of volatility over the next three to nine months. However, we view the market reaction to the outcome of the FOMC meeting as logical and reasonable given the additional "patience" the Committee is portraying.

Exhibit 1: The Fed's new dot plot




Source: US Department of the Treasury. As of March 20, 2019. Note: Each shaded circle indicates the value (rounded to the nearest 1/8 percentage point) of an individual participant's judgment of the midpoint of the appropriate target range for the federal funds rate or the appropriate target level for the federal funds rate at the end of the specified calendar year or over the longer run. One participant did not submit longer-run projections for the federal funds rate.

## Disclosure

**This material is to be used for institutional investors and not for any other purpose.** This communication is being provided for informational purposes in connection with the marketing and advertising of products and services. This material contains current opinions of the manager and such opinions are subject to change without notice. Aegon AM US is under no obligation, expressed or implied, to update the material contained herein. This material contains general information only on investment matters; it should not be considered a comprehensive statement on any matter and should not be relied upon as such. If there is any conflict between the enclosed information and Aegon AM US' ADV, the Form ADV controls. The information contained does not take into account any investor's investment objectives, particular needs, or financial situation. Nothing in this material constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to you. The value of any investment may fluctuate. Investors should consult their investment professional prior to making an investment decision. Aegon AM is not undertaking to provide impartial investment advice or give advice in a fiduciary capacity for purposes of any applicable federal or state law or regulation. By receiving this communication, you agree with the intended purpose described above.

The information presented is for illustrative purposes only.

Results for certain charts and graphs are included for illustrative purposes only and should not be relied upon to assist or inform the making of any investment decisions.

Aegon AM US may trade for its own proprietary accounts or other client accounts in a manner inconsistent with this report, depending upon the short term trading strategy and/or guidelines for a particular client as well as other variables.

Diversification does not ensure a profit nor guarantee against loss.

This document contains "forward-looking statements" which are based on the firm's beliefs, as well as on a number of assumptions concerning future events based on information currently available. These statements involve certain risks, uncertainties and assumptions which are difficult to predict. Consequently, such statements cannot be guarantees of future performance and actual outcomes and returns may differ materially from statements set forth herein.

Aegon Asset Management US is a US-based SEC registered investment adviser and is also registered as a Commodity Trading Advisor (CTA) with the Commodity Futures Trading Commission (CFTC) and is a member of the National Futures Association (NFA). Aegon Asset Management US is part of Aegon Asset Management, the global investment management brand of the Aegon Group.

Recipient shall not distribute, publish, sell, license or otherwise create derivative works using any of the content of this report without the prior written consent of Aegon Asset Management US, 6300 C Street SW, Cedar Rapids, IA 52499.

© 2019 Aegon Asset Management US

Adtrax Code: 2386241.4
Exp Date: 2/28/2020

Contact us: aegoninvestments.com



Aegon Asset Management is the global investment management brand of the Aegon Group N.V. and is comprised of Aegon USA Investment Management, LLC (Aegon Asset Management US), Aegon USA Realty Advisors, LLC (Aegon Real Assets US), Kames Capital plc (Kames Capital) and other Aegon affiliates. Aegon Asset Management US, Aegon Real Assets US, and Kames Capital are SEC registered investment advisers.