

Dutta's Monetary Thoughts

Not risk-free but pretty low-risk

Neil Dutta

Another cut in October

It's hard to be data dependent when the data are not being released, but it's widely anticipated that the Fed will cut another 0.25ppt this week. That would take the upper bound of the federal funds rate to 4.00 percent.

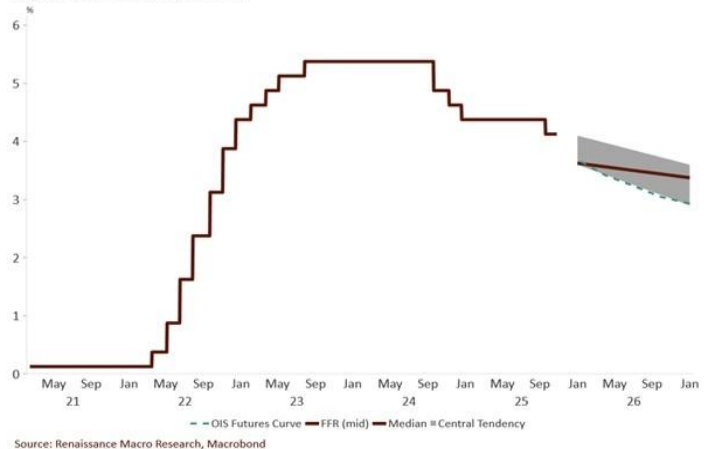
Powell talks of no risk-free path, but another quarter-point rate cut feels like a very low risk move. Labor market slack continues to build and there is reason to expect inflation to cool as a result.

Labor market slack is building

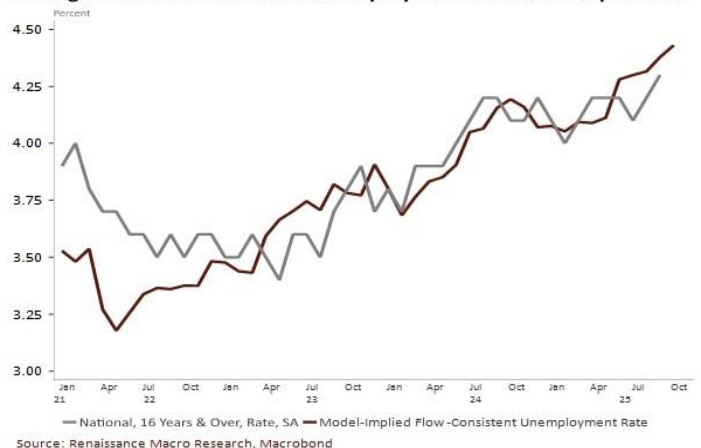
Let's start with the jobs market. Had the September employment data been released, a model estimate from the Chicago Fed concludes that the unemployment rate likely would have increased another tenth to 4.4 percent. Into Q4, we see that job openings have been sliding, week in and week out. As we've noted, the labor market is operating along a point in the Beveridge Curve where declines in labor demand imply a more rapid increase in the unemployment rate.

Next, anecdotally, layoff news appears to have perked up somewhat. [Amazon](#), [Nestle](#), [Molson Coors](#), [Target](#), [Applied Materials](#), [Charter Communications](#), [Carter's](#) and [GM](#) have all announced layoffs in the last week. What strikes us about these announcements is that the cast a fairly wide net across different industries in the economy.

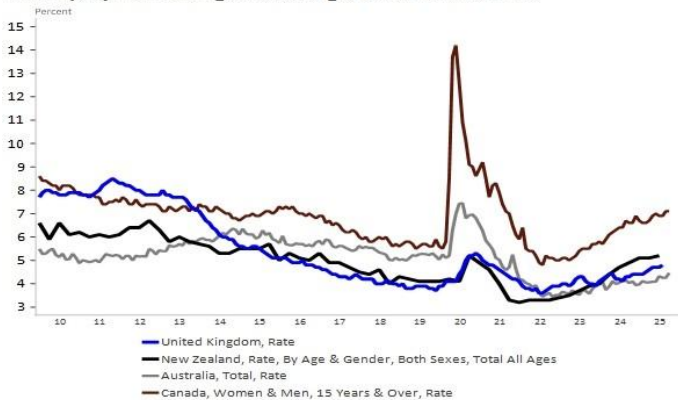
Expect two more cuts in 2025



Chicago Fed model estimates unemployment at 4.4% in September

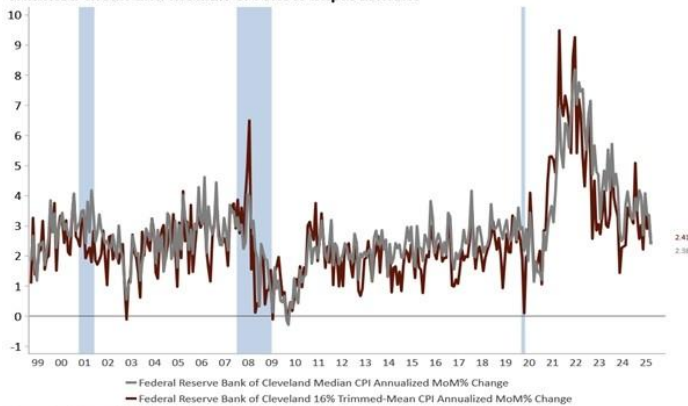


Unemployment rising across Anglo-saxon economies



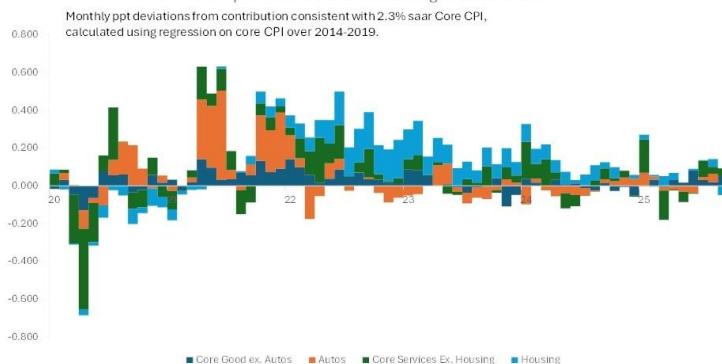
Source: Renaissance Macro Research, Macrobond

Trimmed-mean and median CPI show improvement



Source: Renaissance Macro Research, Macrobond

Component drivers of above-target US Core CPI



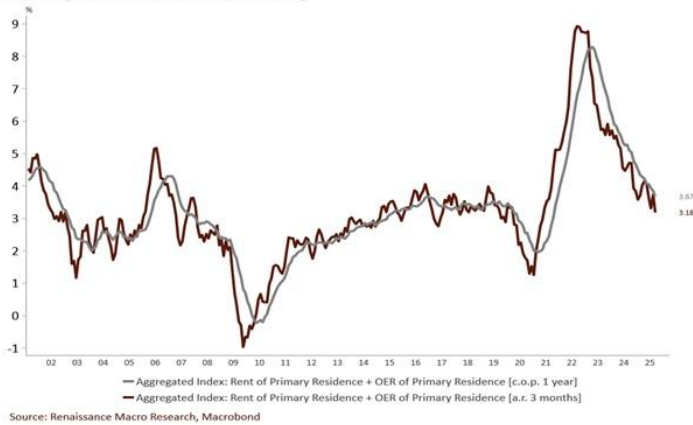
Finally, unemployment appears to be climbing across the English-speaking world. In the most recent month of data, unemployment rates have increased in Australia and United Kingdom. In Canada, the unemployment rate stands at a cycle high. This would lend support to the notion that there is a common factor across these economies pushing unemployment up – weaker labor demand.

Underlying inflation easing

Next, inflation concerns ought to be fading, at the margin. In September, underlying inflation measures eased; trimmed-mean and median CPI both slid over the month. Most empirical research finds that trimmed mean and median measures are less biased and more closely track the persistent component of inflation, providing a more accurate signal of true inflation trends. Thus, it is fair to conclude that the drop in trimmed-mean and median CPI reflects an improvement in underlying inflation.

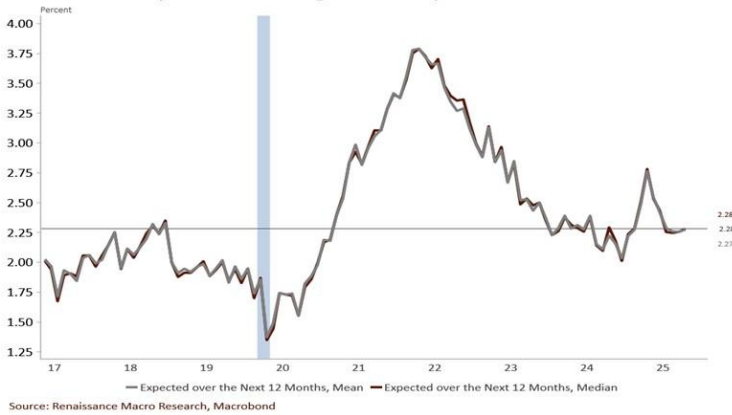
The gap in core inflation relative to the Fed's target is mostly non-auto core commodities and that is about tariffs. Put differently, in the absence of tariffs, inflation is running at target. Our nearby figure provides the illustration, showing monthly deviations consistent with 2.3 percent core CPI inflation – recall that core CPI tends to run somewhat above core PCE historically, so the CPI "target" is somewhat above the formal PCE one.

Housing rental inflation is still cooling



The figure also shows that housing is contributing less than what's consistent with two percent inflation. I suspect that housing rental inflation continues to cool off in the year-ahead. After all, official measures tend to lag market-based measures of rents as market-based rents continue to ease and vacancy rates climb.

Firms' inflation expectations unchanged from last year

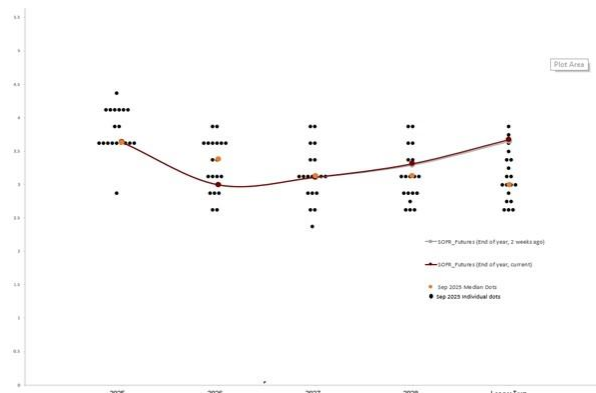
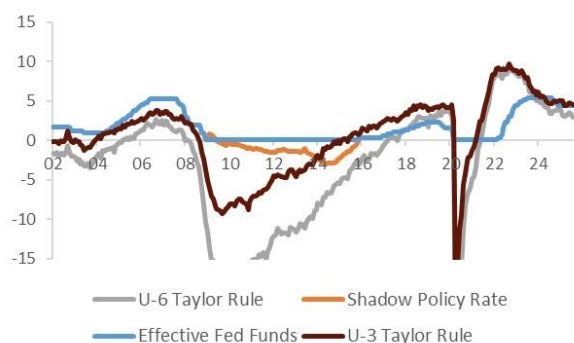


Finally, business inflation expectations remain anchored. According to the Atlanta Fed's Business Inflation Expectations Survey, firms' year-ahead inflation expectations remain unchanged at 2.3% in October. This is exactly where this series stood in October 2024. Consumer attitudes tend to be shaped primarily by those goods and services they purchase frequently, such as food and gasoline, while businesses tend to take on a wider range of information.

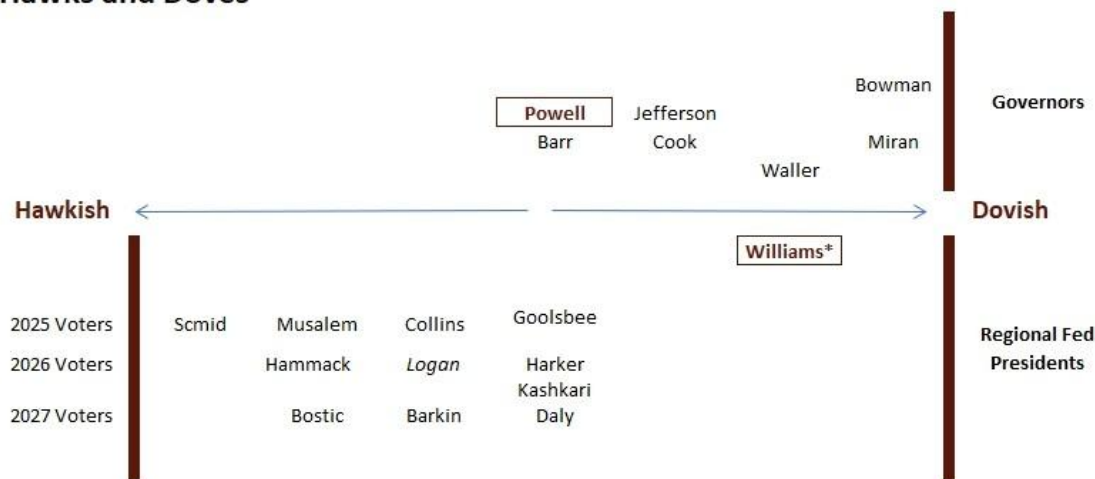
In short, labor market slack is increasing, underlying inflation is cooling, and actual inflation will continue to

cool as tariff-effects fade and as housing rents ebb. Cutting for the rest of the year is very low risk.

Monetary metrics



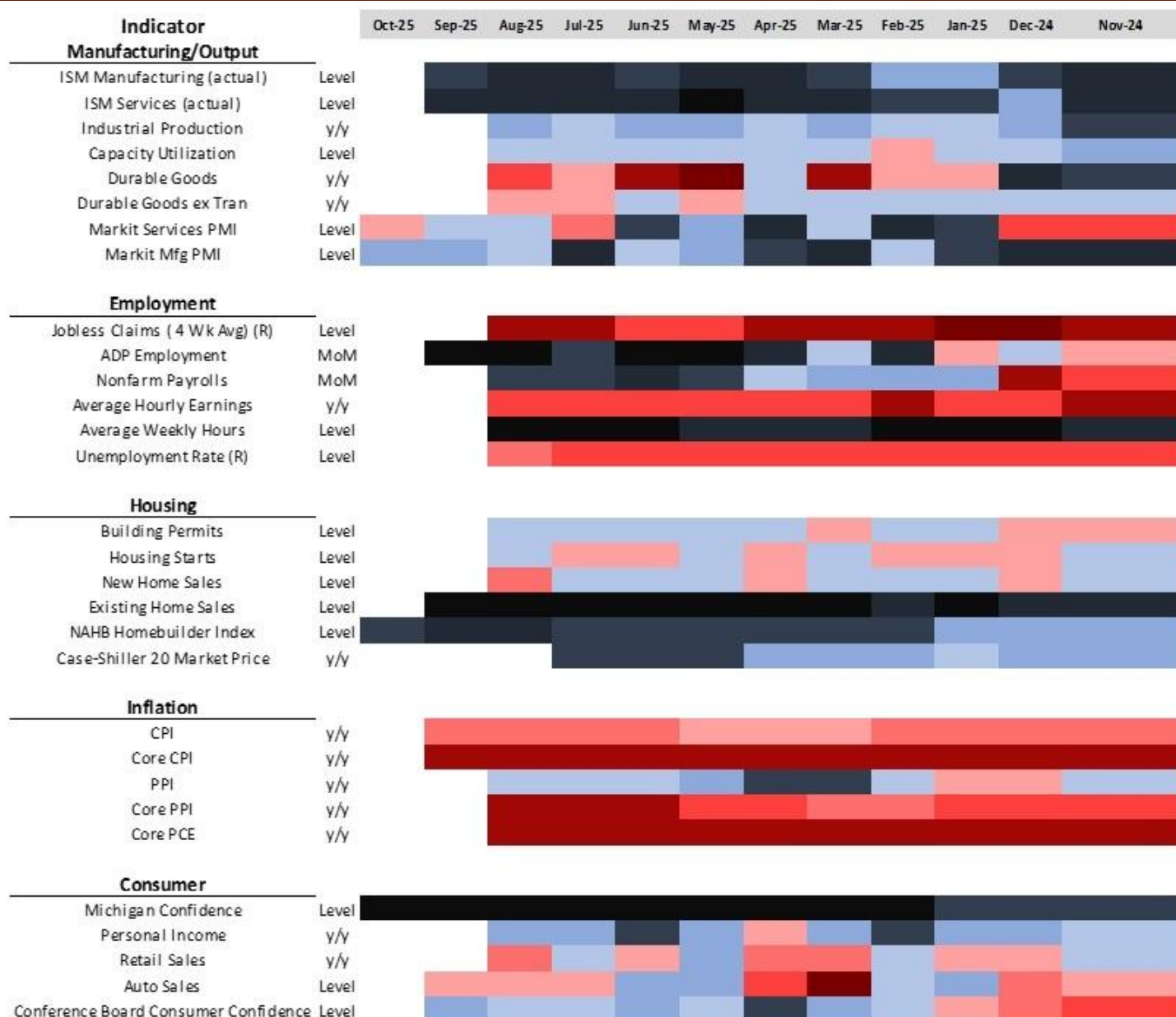
Hawks and Doves



*Federal Reserve Bank of NY President always votes
Boxed individuals represent FOMC core

FOMC Forecasts	Median					Central Tendency				
	2025	2026	2027	2028	Longer run	2025	2026	2027	2028	Longer run
Change in real GDP	1.6	1.8	1.9	1.8	1.8	1.4–1.7	1.7–2.1	1.8–2.0	1.7–2.0	1.7–2.0
June projection	1.4	1.6	1.8		1.8	1.2–1.5	1.5–1.8	1.7–2.0		1.7–2.0
Unemployment rate	4.5	4.4	4.3	4.2	4.2	4.4–4.5	4.4–4.5	4.2–4.4	4.0–4.3	4.0–4.3
June projection	4.5	4.5	4.4		4.2	4.4–4.5	4.3–4.6	4.2–4.6		4.0–4.3
PCE inflation	3.0	2.6	2.1	2.0	2.0	2.9–3.0	2.4–2.7	2.0–2.2	2.0	2.0
June projection	3.0	2.4	2.1		2.0	2.8–3.2	2.3–2.6	2.0–2.2		2.0
Core PCE inflation	3.1	2.6	2.1	2.0		3.0–3.2	2.5–2.7	2.0–2.2	2.0	
June projection	3.1	2.4	2.1			2.9–3.4	2.3–2.7	2.0–2.2		
Projected policy path										
Fed funds rate	3.6	3.4	3.1	3.1	3.0	3.6–4.1	2.9–3.6	2.9–3.6	2.8–3.6	2.8–3.5
June projection	3.9	3.6	3.4		3.0	3.9–4.4	3.1–3.9	2.9–3.6		2.6–3.6

High frequency data heat-map



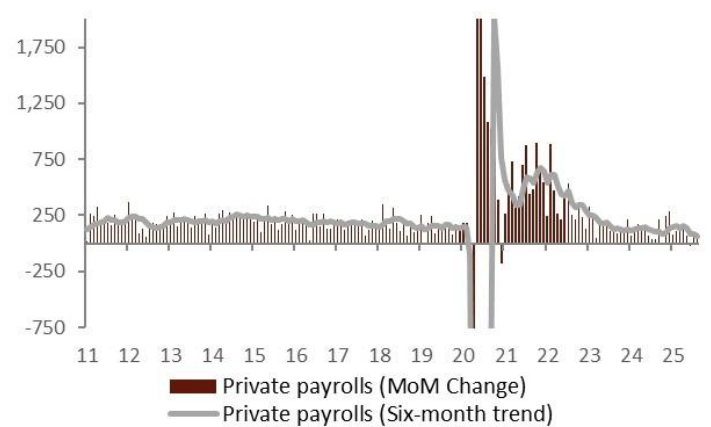
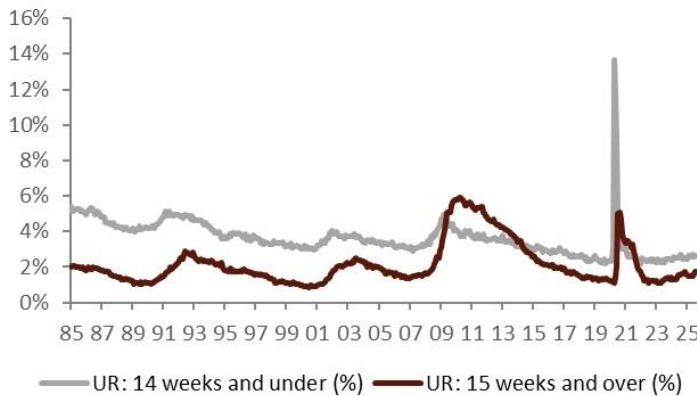
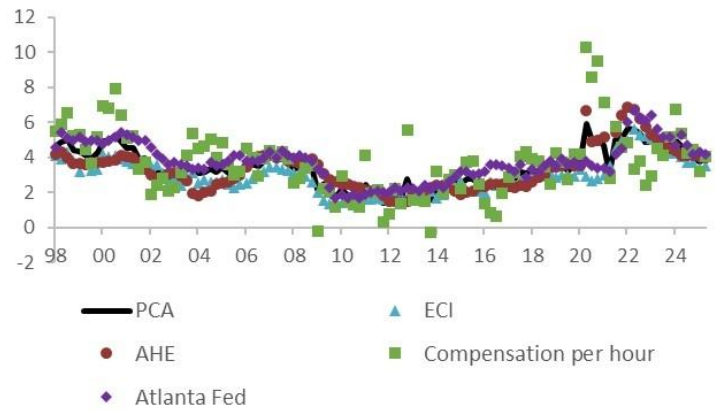
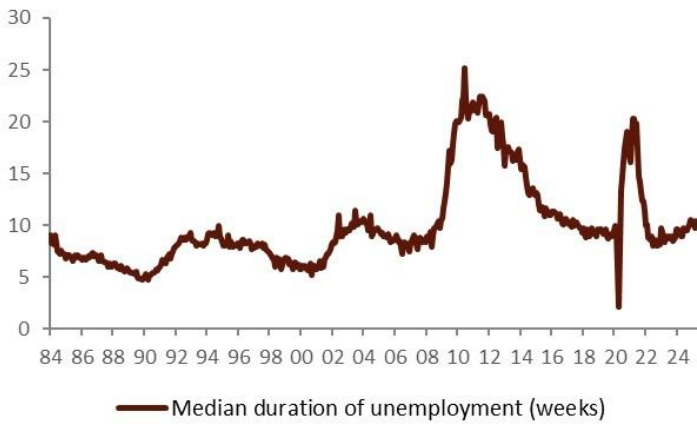
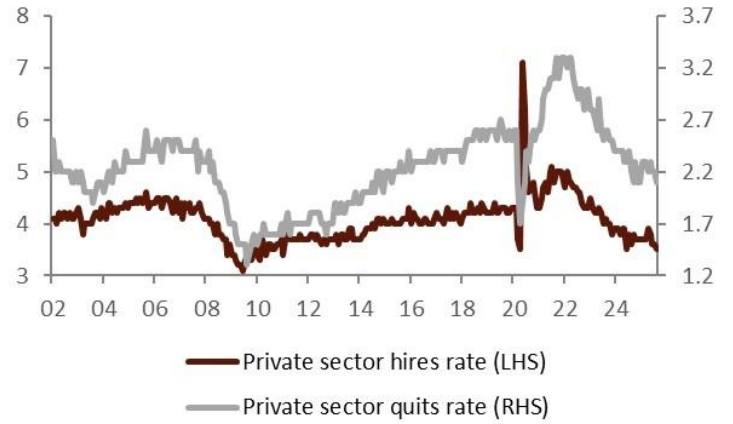
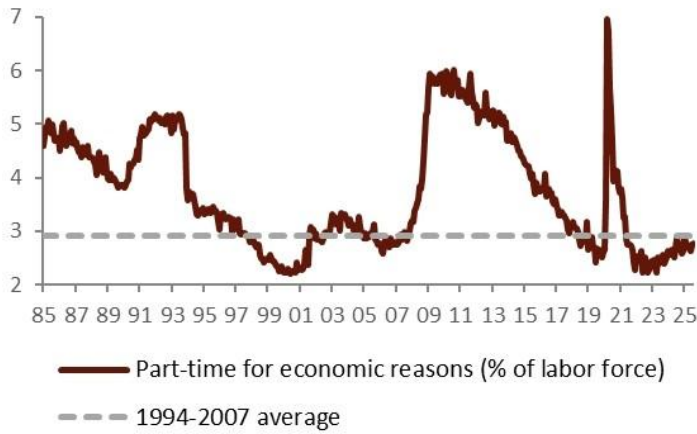
Notes

R - Reverse Formatting

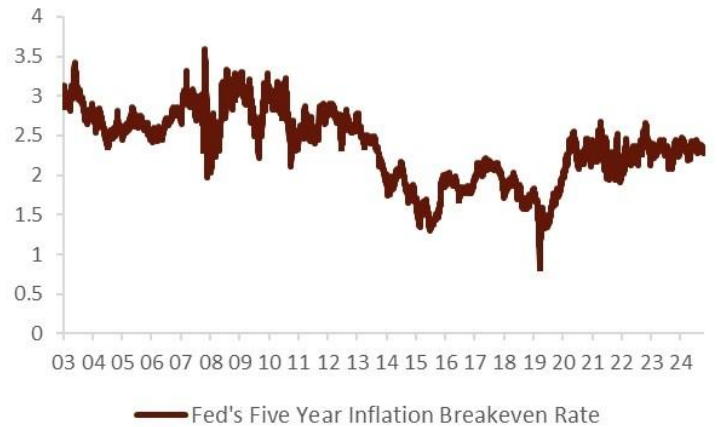
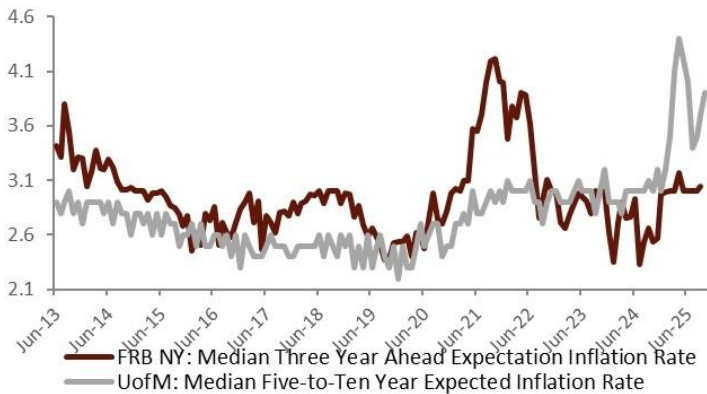
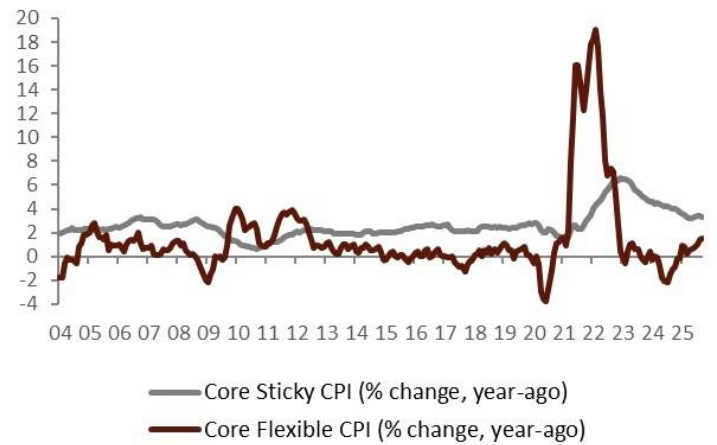
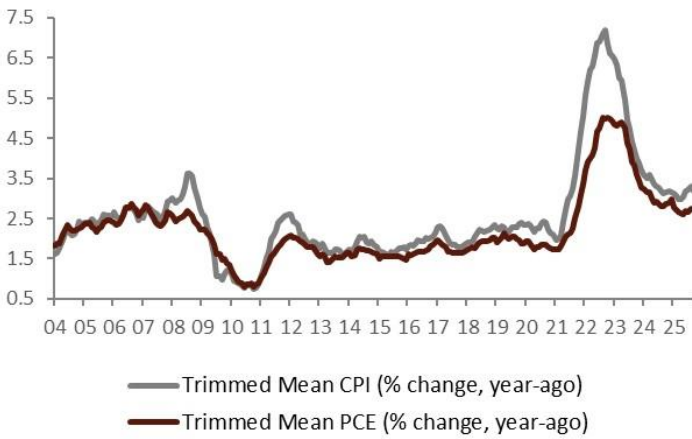
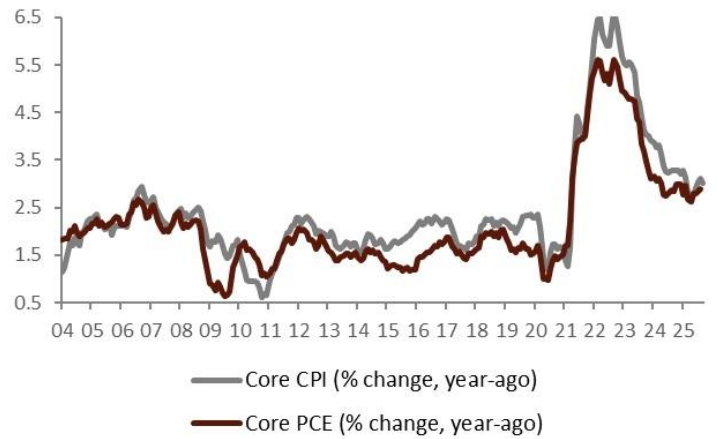
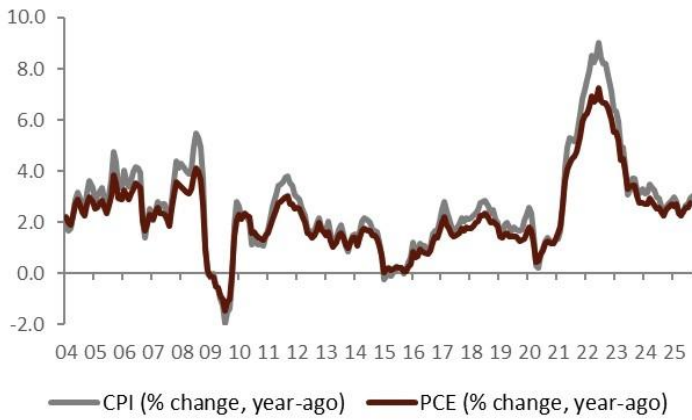
Deciles are based on expanding window since 2001



Labor market indicators

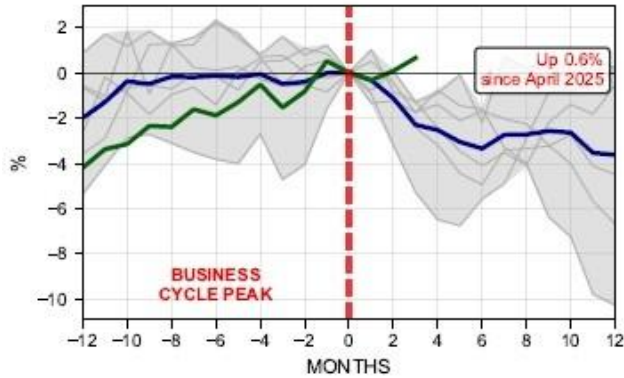


Inflation indicators

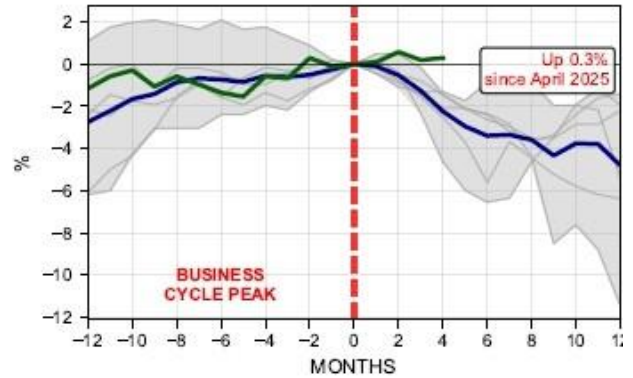


NBER RECESSION INDICATORS DASHBOARD

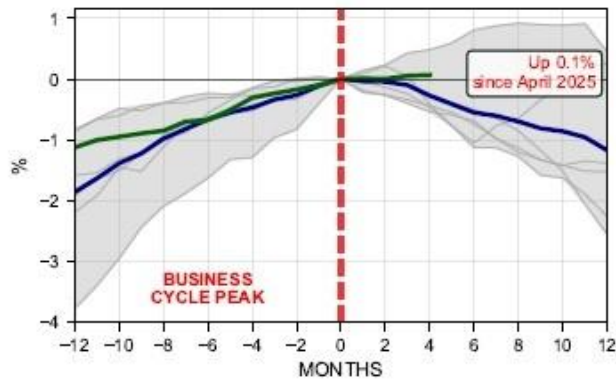
REAL SALES: MANUFACTURING AND TRADE INDUSTRIES



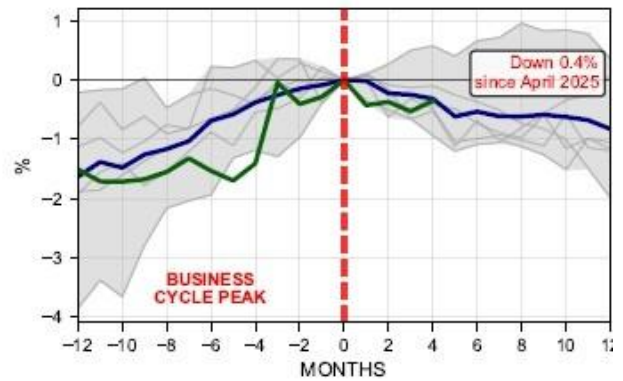
INDUSTRIAL PRODUCTION



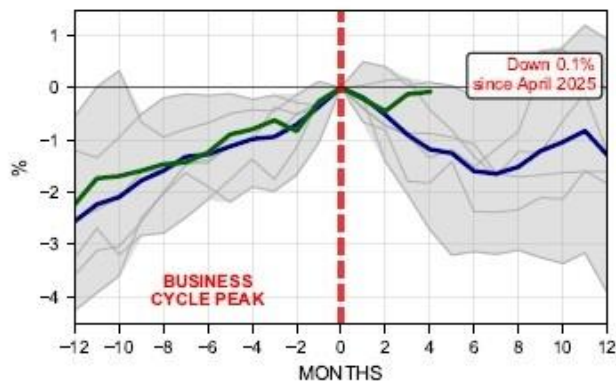
US NONFARM PAYROLLS



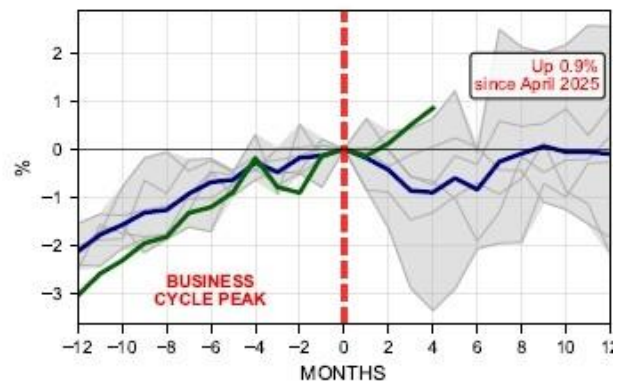
CIVILIAN EMPLOYMENT



REAL PERSONAL INCOME MINUS CURRENT TRANSFER RECEIPTS



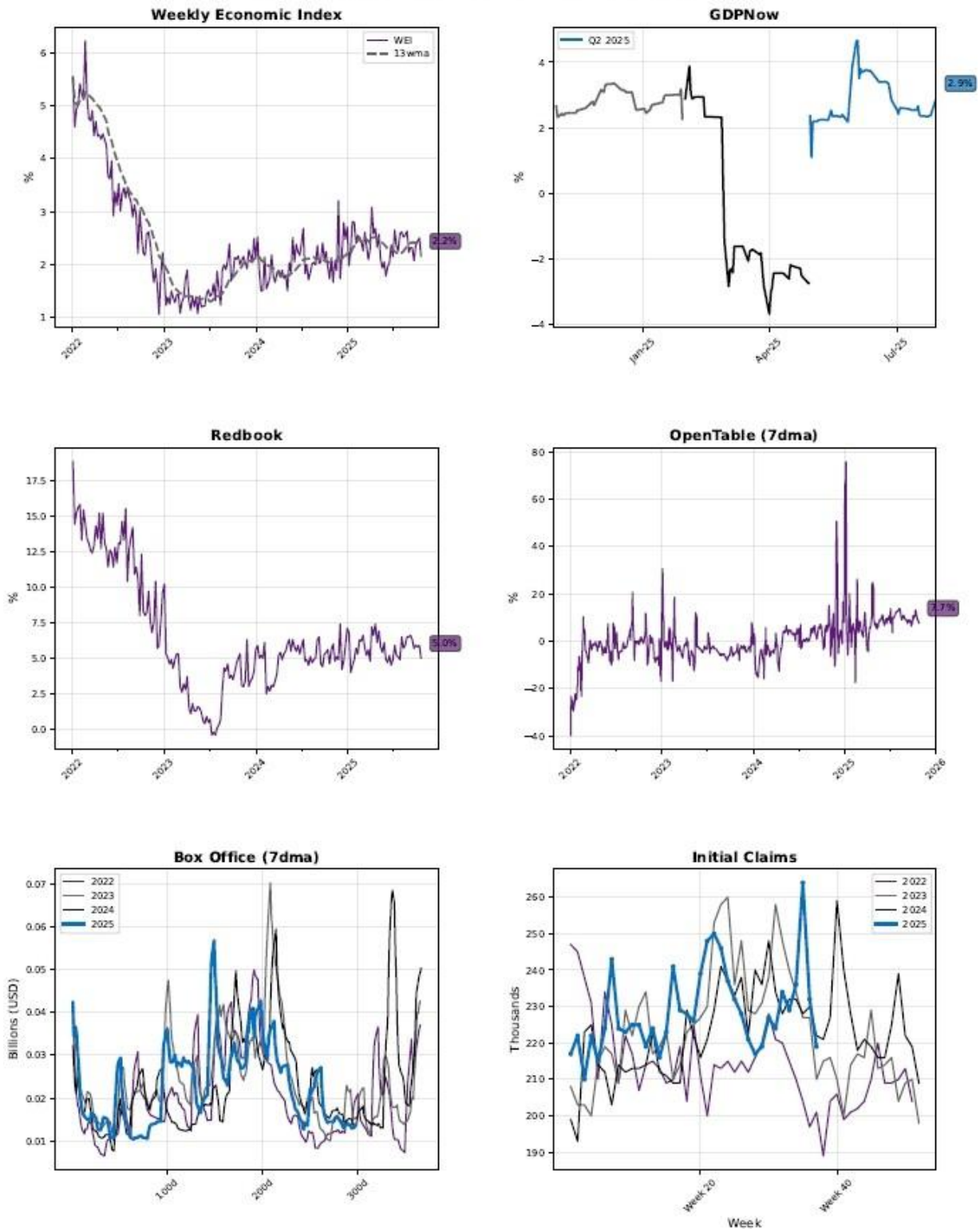
REAL PCE



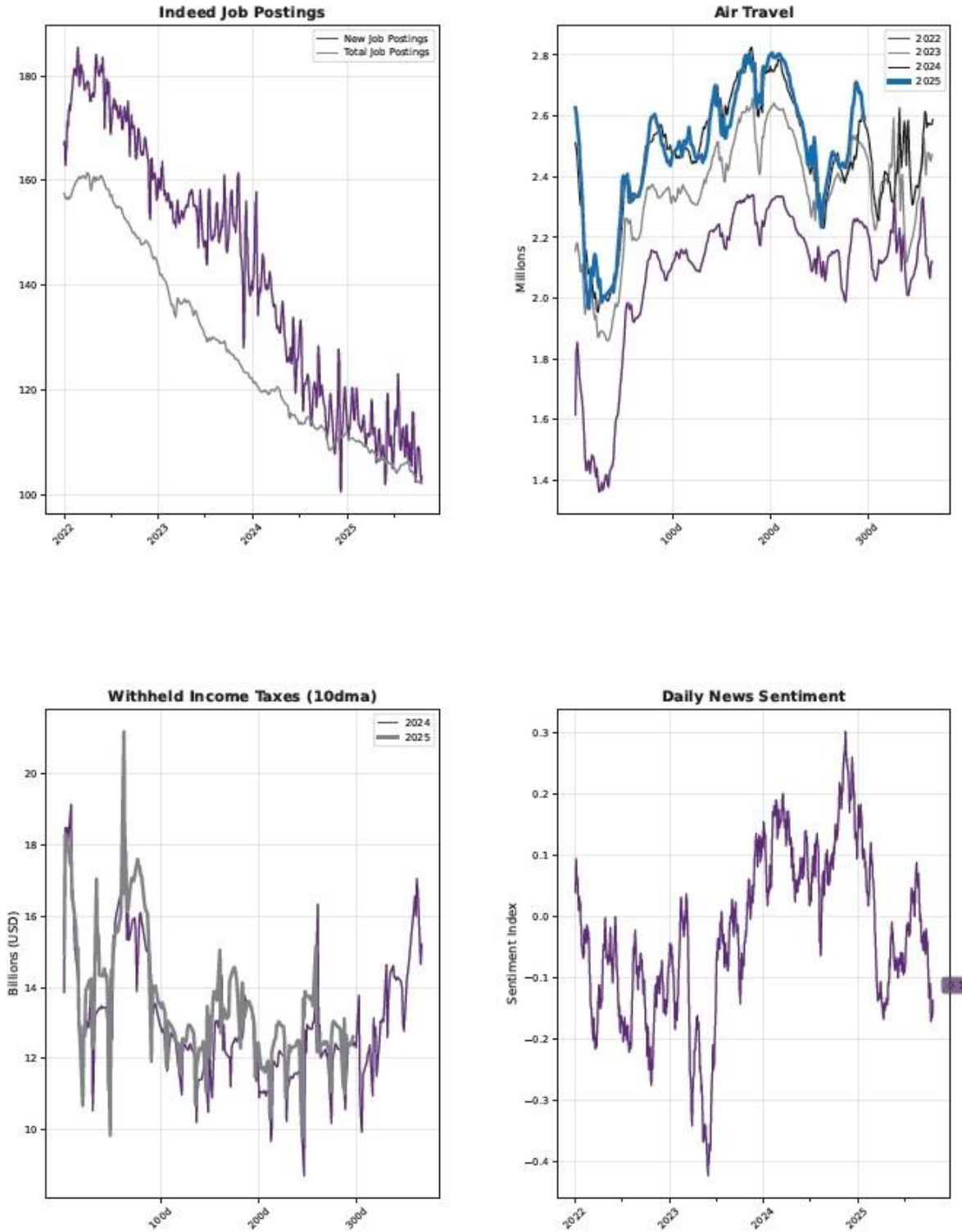
PAST CYCLES (RANGE) PAST CYCLES PAST CYCLES (MEAN) CURRENT CYCLE

Past 7 cycles excluding Covid-19 period

High Frequency Economic Dashboard



High Frequency Economic Dashboard



DISCLAIMER: This document has been prepared by Renaissance Macro Securities LLC, a subsidiary of Renaissance Macro Holdings, LLC. This document is for distribution only as may be permitted by law. It is published solely for information purposes; it is not an advertisement nor is it a solicitation or an offer to buy or sell any financial instruments or to participate in any particular trading strategy. No representation or warranty, either expressed or implied, is provided in relation to the accuracy, completeness or reliability of the information contained in this document. The information is not intended to be a complete statement or summary of the markets, economy or other developments referred to in the document. Any opinions expressed in this document may change without notice. Any statements contained in this report attributed to a third party represent RenMac's interpretation of the data, information and/or opinions provided by that third party either publicly or through a subscription service, and such use and interpretation have not been reviewed by the third party. Nothing in this document constitutes a representation that any investment strategy or recommendation is suitable or appropriate to an investor's individual circumstances or otherwise constitutes a personal recommendation. Investments involve risks, and investors should exercise prudence and their own judgment in making their investment decisions. The value of any investment may decline due to factors affecting the securities markets generally or particular industries. Past performance is not indicative of future results. Neither RenMac nor any of its directors, employees or agents accept any liability for any loss (including investment loss) or damage arising out of the use of all or any of the information. Any information stated in this document is for information purposes only and does not represent valuations for individual securities or other financial instruments. Different assumptions by RenMac or any other source may yield substantially different results. The analysis contained in this document is based on numerous assumptions and are not all inclusive.

Copyright © RenMac 2025. All rights reserved. All material presented in this document, unless specifically indicated otherwise, is under copyright to RenMac. None of the material, nor its content, nor any copy of it, may be altered in any way, or transmitted to or distributed to any other party, without the prior express written permission of RenMac. No portion of this material, including data, analysis, or commentary, may be input into, uploaded to, or otherwise used in connection with any artificial intelligence (AI) system, machine learning model, large language model (LLM), chatbot, or automated content generation platform, including but

not limited to ChatGPT, Claude, Gemini, or similar tools, without the prior express written consent of Renaissance Macro Research, LLC. Any such use is strictly prohibited and constitutes a violation of copyright and confidentiality protections.