

How many times will the Fed cut rates? Here's what Wall Street expects for the key stock-market driver in 2024.

By Matthew Fox

Interest rates have soared since the start of 2022, as the Federal Reserve sought to delicately tame inflation without derailing the economy by hiking rates.

Since its last interest rate hike in July, it seems the Fed has made solid progress in lowering inflation without hurting the labor market and broader economy. This has spurred many analysts on Wall Street to forecast significant interest rate cuts next year.

No matter what the Fed does with monetary policy in 2024, investors should pay close attention, as rates represent a significant input for the broader economy and stock market valuations. It matters for consumers too, as interest rate cuts from the Fed would likely translate into lower mortgage and auto loan rates.

Here's a rundown of what Wall Street expects the Fed to do with interest rates in 2024.

UBS: The Fed will cut interest rates by 275 basis points

The US economy will enter a recession in 2024, according to UBS, and that will spark the Fed to aggressively cut interest rates next year.

The Swiss bank said in a note last month that it expects the Fed to cut rates by 275 basis points next year, which translates into a whopping 11 interest rate cuts from the Fed, assuming they cut by 25 basis points each time.

The Fed's cuts would be "a response to the forecasted US recession in Q2-Q3 2024 and the ongoing slowdown in both headline and core inflation," UBS said. UBS expects the interest rate cuts to begin during the Fed's March FOMC meeting.

Macquarie: The Fed will cut interest rates by 225 basis points

The combination of higher interest rates and the Fed's quantitative tightening policies, which it is using to reduce the amount of bonds it holds on its balance sheet, means that the monetary conditions are a lot tighter than they might appear on the surface. The San Francisco Fed's proxy Fed Funds rate is at 6.7% right now.

That fact, combined with a likely continued decline in inflation thanks to slowing rent increases, suggests to Macquarie that the Fed will cut interest rates by 225 basis points next year.

"The Fed hasn't yet abandoned its 'high for long' narrative adopted in late September. But we and our economists are of the view that we may see the Fed Funds rate cut by -225bps in 2024," Macquarie said in a note on Friday.

ING Economics: The Fed will cut interest rates by 150 basis points

Moderating inflation, a cooling jobs market, and a deteriorating outlook for consumer spending mean the Fed may need to cut interest rates more than the market expects.

"We have modest growth and cooling inflation and a cooling labour market — exactly what the Fed wants to see," ING's chief international economist, James Knightley, wrote in a note last month. "This should confirm no need for any further Fed policy tightening, but the outlook is looking less and less favourable."

Knightley says he expects the Fed will start cutting interest rates in the second quarter of next year, delivering as many as six 25-basis-point rate cuts totaling 150 basis points. He also says he expects the interest-rate cuts to extend into 2025 with at least four 25-basis-point interest-rate cuts.

The market: Investors expect the Fed to cut interest rates by 125 basis points

According to the CME's FedWatch Tool, futures markets are pricing in rate cuts totaling 125 basis points next year. That would put the Fed Funds rate in a range of 4.00%-4.25%, compared to the current range of 5.25%-5.50%.

Barclays: The Fed will cut interest rates by 100 basis points

Continued resilience in the economy next year will make the Fed cautious about cutting interest rates too aggressively, according to a recent note from Barclay's.

The firm expects the Fed to cut interest rates by 100 basis points next year, followed by another 100 basis points of cuts in 2025.

Barclay's said investors are too pessimistic about the economy's continued resilience, which could fuel a return of inflation. That's why the Fed may be slow to cut interest rates throughout 2024, according to the note.

Goldman Sachs: The Fed will cut interest rates by 50 basis points

Falling inflation and "healthy" economic growth suggests to Goldman Sachs that the Fed won't be in a hurry to cut interest rates next year.

The bank said it expects the Fed to cut rates by 50 basis points next year, with the first interest rate cut occurring in the third quarter of 2024.

"Healthy growth and labor market data suggest that insurance cuts are not imminent," Goldman Sachs' chief economist Jan Hatzius said in a recent note. "But the better inflation news does suggest that normalization cuts could come a bit earlier than our previous forecast of [the fourth quarter of 2024]."

Two interest rate cuts next year would put the Fed Funds rate in a range of between 4.75% and 5.00%.

The Federal Reserve: The Fed expects to cut interest rates by 25 basis points

The median projection of the Fed's most recent interest rate dot plot chart, released in September, puts the Federal Funds Rate at 5.1% at the end of 2024, representing just one 25 basis point interest rate cut for all of next year. If that's the case, the market has gotten way ahead of itself in forecasting interest rate cuts, and that could ultimately provide a bout of volatility for the stock market.

The Fed is scheduled to update its dot plot chart at its FOMC meeting next week, and expectations are that the median forecast of interest rate cuts from the Fed next year will jump to 50 basis points.