

MORNING MARKET COMMENTARY

Monday, December 16, 2024

	Last end of day	Previous end of day
Fed Funds (open)	4.58%	4.58%
3-Month T-Bill	4.22%	4.23%
6-Month T-Bill	4.18%	4.17%
1-Year T-Bill	4.06%	4.05%
2-Year T-Note	4.226%	4.205%
10-Year T-Note	4.371%	4.347%
30-Year T-Bond	4.582%	4.563%
Overnight SOFR	4.62%	4.62%
DJIA -86.06	43,828.06	43,914.12
Japanese Yen/USD	154.00	153.50
Canadian Dollar/USD	1.4248	1.4216
USD/Euro	1.0498	1.0518
Gold-London Fix	2,668.13	2,680.73
Crude Oil	71.29	70.78

December 16, 2024: Rate Gap That Triggered Trump's Fed Bashing Set to Widen Again (Bloomberg)

America's surprisingly robust economy has raised expectations that US interest rates will stay high compared to Europe next year. That may sound like a good problem to have, but it spells trouble for President-elect Donald Trump's trade ambitions. The gap between US and euro zone interest rates, which is set to widen, has already driven up the value of the dollar and could undercut his efforts to boost US exports.

Trump's problem could soon become Jerome Powell's, too. A similar rate gap in Trump's first term was a frequent irritant to the president, and a trigger for regular bashing of the Federal Reserve chair and

his colleagues. Now that Trump's heading back to the White House, another divergence between the Fed and its global peers may be the cue for more of the same.

"I wouldn't be surprised if Trump goes after the Fed for not acting in line," said Derek Tang, an economist at LH Meyer/Monetary Policy Analytics. "This time around, the Trump administration is more organized, and so this very organized approach to tariffs and negotiations with other countries is probably going to lead to a more sustained rise in the dollar. And monetary policy is a part of that."

Eight years ago, at the dawn of the first Trump administration, a US-Europe gap started to emerge as the Fed increased rates while the European Central Bank held them below zero. Trump slammed the growing disparity, blaming the Fed's actions for driving up the dollar versus other currencies and hurting US trade in the process. Now, both central banks are easing policy – but there's much more urgency in Europe, where the ECB is seeking to shore up a flagging economy. In the US, expectations for how much Powell and his colleagues will cut rates have tempered, amid solid US growth and robust consumer demand.

Europe has struggled in recent years to achieve much growth, and economists see that continuing into 2025. Higher interest rates to tackle post-pandemic inflation hit the region harder than the US, and Europe's dependence on Russia for energy also proved to be a headwind for expansion after the invasion of Ukraine.

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