



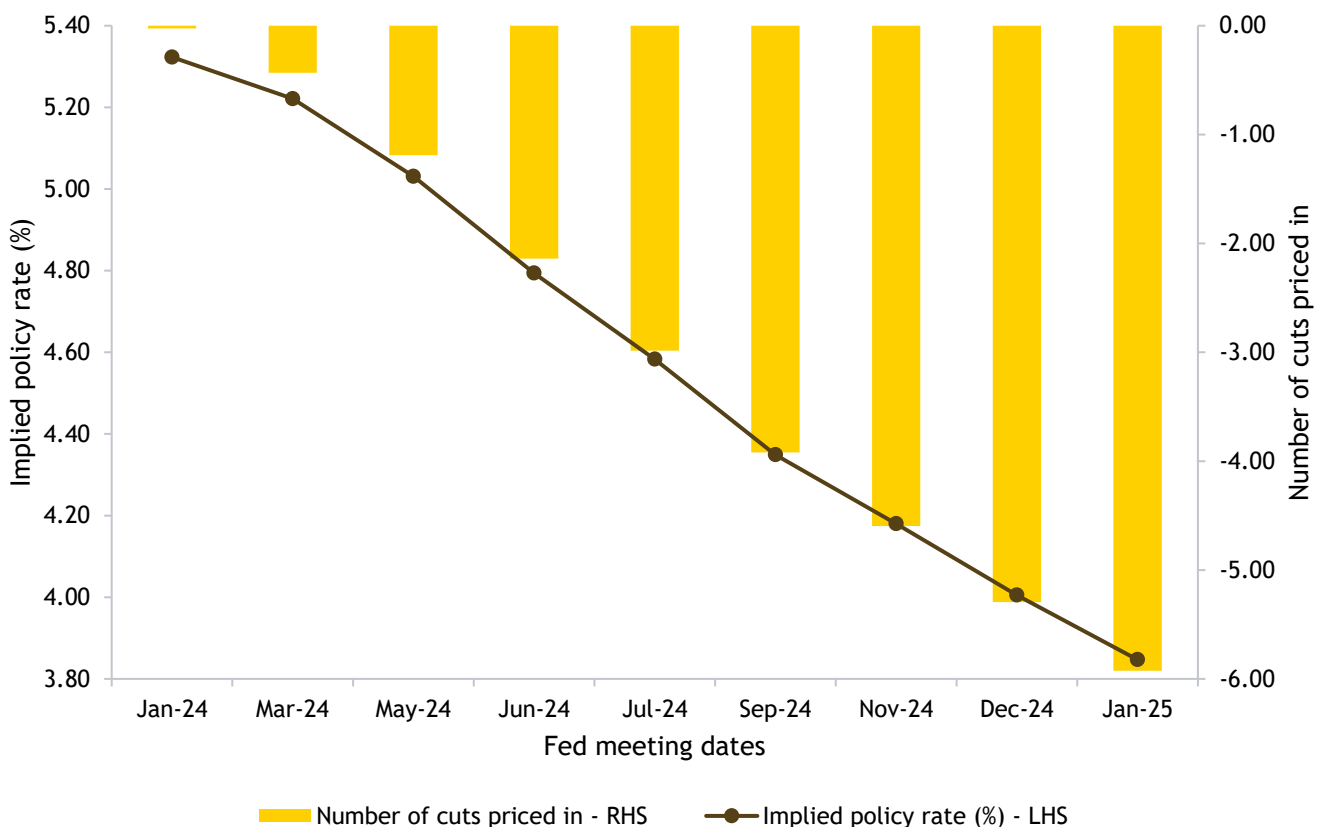
Fewer rate cuts on the horizon.

SEI believes the Fed will cut less than markets expect.

SEI has entered an options position reflecting the view that the pace of Federal Reserve (Fed) rate cuts will be slower than the market is anticipating. We believe the market is overly optimistic regarding the timing and number of rate cuts the Fed will implement as part of its policy normalization. For example, the market is currently pricing in six Fed rate cuts for 2024, while we believe the actual number will be closer to the Fed’s own projections of three rate cuts.

While the rate of inflation in the U.S. has improved markedly from its recent highs, we believe the market may be overly optimistic in its expectations in the timing of reaching the Fed’s target of about 2%. Not only do we believe the current market pricing for rate cuts reflects a relatively sanguine view on the path of inflation, but it also likely reflects a very weak outlook for U.S. economic activity—a view we do not share in the near term. We believe this Secured Overnight Financing Rate (SOFR) option position should benefit if the market moves toward our outlook for Fed cuts going forward.

Exhibit 1: Fed Rate Cut Expectations



Source: Bloomberg, SEI, January 31, 2024 to January 29, 2025.

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