Dynamic Asset Allocation Fund Trades | September 2023

A widening of the U.S. versus European central bank policy rates.

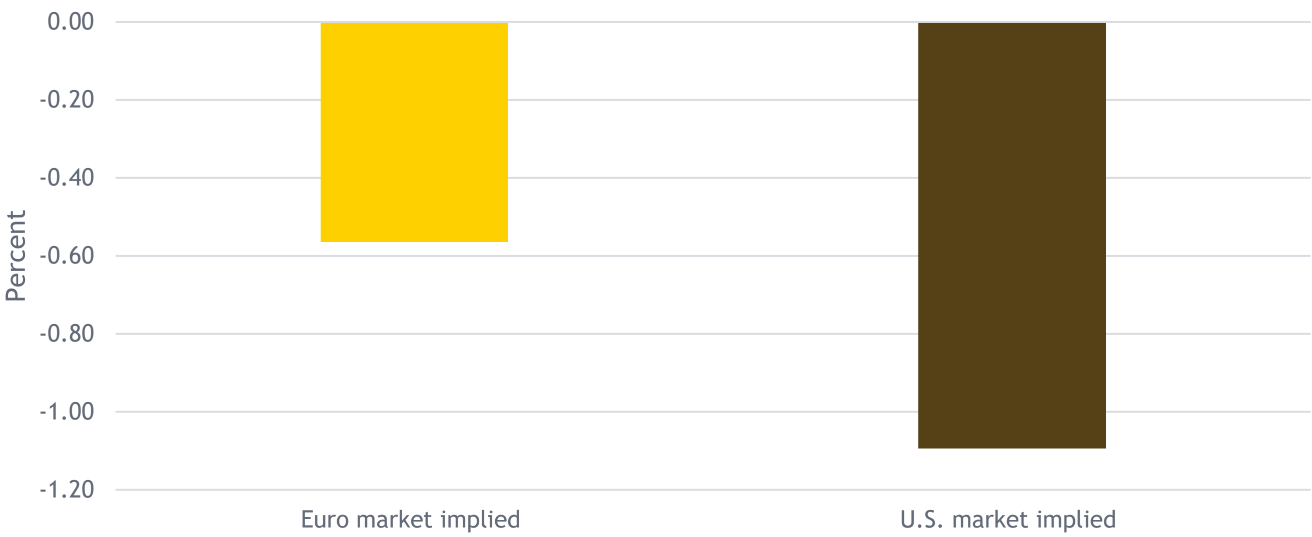
SEI has entered a position designed to benefit from the widening of relative central bank policy rate expectations over the coming year.

Federal Reserve vs. European Central Bank

In the U.S., SEI believes the rates market has priced in overly optimistic expectations for interest rate cuts, given resilient economic growth and persistent inflation. In our view, the Federal Reserve's dependency on economic growth and inflation data tilts risk in favor of higher short-term interest rates in the U.S. In contrast, the European rates market is priced for a more muted easing cycle. We view this as misaligned with the sharp deterioration in European economic activity. Accordingly, we believe the risk is skewed towards lower short-term interest rates for the European yield curve. As can be seen in Exhibit 1, implied policy interest rates indicate expectations are for about two 0.25% rate cuts in Europe. Meanwhile, the implied policy interest rates for the U.S. indicate the potential for about four 0.25% rate cuts.

In an effort to capitalize on these perceived dislocations we have structured a relative value trade that will benefit from the widening of the short-term rate differential in the U.S. versus Europe. As a relative value trade, the position may benefit from either reduced easing in the U.S. (fewer cuts than the market currently expects) or increased easing in Europe (more cuts than the market currently expects).

Exhibit 1: Implied policy interest rates are set to ease



Source: Bloomberg as of September 6, 2023.

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