Dupree
Mutual Funds

September 30, 2024

Dear Shareholder:

The long wait is finally over! For over a year the Fed maintained the fed funds target range at 5.25-5.50% which was up from near zero in early 2022 when the Fed's current tightening cycle started. At its September meeting, the Fed pivoted and announced its first interest rate cut (a half point or 50 basis points) in four years. The size of the rate cut surprised many—it indicates that the Fed is shifting its focus from inflation to employment, which has shown signs of weakening. The Fed seems convinced that inflation will continue to decline slowly to desired levels, but the Fed is also signaling a concern that the economy may no longer be growing fast enough to support maximum employment. A sizeable rate cut to jump-start monetary policy easing, likely followed by smaller rate cuts is one way to address these concerns.

The Fed also lowered its forward fed funds target range rate projections. The dot plot median shows two more quarter-point cuts this year, four cuts next year, and two cuts in 2026. The new median projection sees the fed funds target rate ending 2025 in the range of 3.25-3.50%. The Fed's Summary of Economic Projections forecasts 2.0% growth in real GDP for the next two years and core PCE inflation returning to its 2.0% target level in 2026. The unemployment rate is projected to peak at 4.4%.

What are the implications of the Fed's policy pivot for fixed-income investors? The short answer: it's great news. Although economic conditions can change quickly, it seems the economy may be heading for a soft landing (as opposed to a recession). Economic growth appears to be moderating, while inflation continues to subside. Historically, municipal bonds have performed well in a slow growth, benign inflation environment. On the other hand, if economic conditions deteriorate and we end up with a hard landing, high quality bonds have also typically performed quite well during these periods. One market commentator summed up the current situation pretty well when he said, "Bonds are back and doing what they are supposed to do."

U.S. money market funds recently reached a record high of $6.3 trillion. The start of the Fed's easing cycle has already lessened the appeal of holding cash or cash equivalents. In the coming months, most market participants believe that there will be a sizeable rotation from cash to high quality fixed-income assets as investors extend duration in an attempt to lock in attractive yields. With the rate cutting cycle still in its early stages, we think it's an ideal time to consider investing in high quality tax-exempt municipal bonds that offer a reliable and predictable stream of tax-free income and the potential for capital appreciation. Additionally, municipal bonds offer excellent portfolio diversification benefits that are frequently overlooked.

Thank you for investing with Dupree Mutual Funds. As always, we appreciate your business.

Sincerely,

Allen E. Grimes, III

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