

FOMC Meeting: Key Takeaways

September FOMC Meeting | September 18, 2019

Policy Announcement

The Federal Open Market Committee (FOMC) lowered its target range for the federal funds rate by 0.25% to 1.75%-2.00%. This is the second consecutive meeting at which the Federal Reserve (Fed) has lowered the fed funds rate by 0.25%. In its press release, the Fed made no mention of the challenges faced by the repurchase agreement (repo) market over the past few days.

Topic	Details
Stated Reasons	<p>Labor market activity remains strong, and economic activity is rising at a moderate rate.</p> <p>Job gains have been solid, while the unemployment rate has remained low.</p> <p>Indicators suggest that household spending has been rising at a strong pace.</p> <p>Implications of global developments for the economic outlook and muted inflation pressures support lower interest rates.</p>
Looking Forward	<p>The committee will continue to monitor the implications of incoming information for the economic outlook and will act as appropriate to sustain the expansion.</p> <p>The FOMC noted strong labor markets and that inflation is near its symmetric 2% objective.</p> <p>Timing of future federal funds rate changes will reflect labor market conditions; indicators of inflation pressures and expectations; and financial and international developments. As noted, the Fed will act appropriately to sustain the expansion.</p>
What Else?	<p>The Fed shifted its view of expected future rate cuts through its median dot plot fed funds rate to signal no more expected cuts through 2020 (even though seven Fed officials' dot plots suggest one more rate cut in 2019).</p> <p>There was a slight increase in economic growth expectations for 2019 and 2021. Yet, there were almost no forecast changes for unemployment and inflation.</p> <p>We favor a more balanced approach to the yield curve and duration (a measure of interest-rate risk). We are neutral on duration and believe that investors should position duration near that of their individually-selected benchmarks. We continue to favor the short end of the yield curve, given its flatness.</p> <p>Market probability of future rate cuts did not move significantly after the announcement, despite the lower dot plots. We expect one more rate cut this year.</p> <p>The bond market moved only slightly in response to the announcement, although U.S. equity markets declined slightly on the outlook that future rate cuts may be less likely (versus levels before the announcement).</p> <p>Voting against the action of lowering of interest rates were Eric Rosengren and Esther George. Additionally, James Bullard dissented as he favored a 0.50% cut.</p>
Upcoming Meeting Schedule	<p>October 30 December 11* January 29 March 18 *</p> <p>*Indicates the meeting is associated with a summary of economic projections. In 2019, every meeting will be accompanied by a press conference.</p>

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