

FOMC Meeting: Key Takeaways

July FOMC Meeting | July 31, 2019

Policy Announcement

The Federal Open Market Committee (FOMC) lowered their target range for the federal funds rate by 0.25% to 2.00%-2.25%. This is the first time the Federal Reserve (Fed) has lowered rates in the past 10 years. Additionally, the Fed will end its balance sheet runoff on August 1, which is two months earlier than previously indicated. The Fed is attempting to coordinate the rate cut with an end in reducing their balance sheet.

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 growth of household spending has picked up from earlier this year, while business-fixed investment remains soft.</p> <p>Global developments are weakening for the economic outlook as well as muted inflation pressures.</p>
Looking Forward	<p>The committee expects inflation to run near its 2% target over the medium term.</p> <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>Timing of future federal funds rate changes will reflect labor market conditions; indicators of inflation pressures and expectations; and financial and international developments. The Fed will act appropriately to sustain the expansion.</p>
What Else?	<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. Although we favor the short end of the yield curve, given its flatness—we have moved to a neutral (or benchmark) weight on the intermediate and long parts of the curve.</p> <p>After the meeting, the probability of September 18 Fed rate cut rose slightly according to the fed fund futures market, rising from a 60% probability to a 67% probability. We expect one more rate cut this year—it is our base case right now.</p> <p>Markets were volatile post the announcement and press conference with the bond and stock markets reversing direction and weakening post the conference.</p> <p>Voting against the action of lowering of interest rates were Eric Rosengren and Esther George.</p>
Upcoming Meeting Schedule	<p>September 18* October 30 December 11*</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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CAR 0719-05241