PENSION & WEALTH MANAGEMENT ADVISORS
IMPROVING FINANCIAL SECURITY

800 SOUTH STREET SUITE 160 WALTHAM MA 02453 t 781.398.0077

BULLETIN: Federal Open Market Committee Decision

February 1, 2024

OVERVIEW

The Fed made no changes to interest rates yesterday, keeping the Fed Funds rate at the 5.25% to 5.50% target. This decision was expected, and it was a unanimous decision including four new FOMC members voting on yesterday's decision.

The Fed upgraded its view of the economy and removed language from the statement around tightening credit conditions. The language of the statement had other significant changes to it including the removal of additional tightening (meaning increasing rates more) language in the last statement. However, the statement also suggested the telegraphing of future interest rate cuts isn't here yet, so it was a more aggressive statement against interest rate cuts occurring sooner rather than later. The market is likely to price out the March interest rate cuts as the Fed Funds futures after the news release went lower.

Chair Powell reiterated a key point he has made at recent press conferences. The path forward is still uncertain and the FOMC is committed to returning inflation to its 2.0% target. He said the labor market is coming into better balance, below levels of a year ago, but is strong and labor demand still exceeds the supply of workers. Importantly, he said the FOMC needs to see continuing evidence that inflation is moving towards the Fed's 2.0% goal. While interest rates have peaked for this cycle, the Fed doesn't want to move too quickly on cutting interest rates such that inflation could once again move higher and reiterated that the Fed will not move until it has more confidence inflation is fully under control. It wants to see better data on inflation like the past six months. The recent inflation data is low but they want to see it lower for a longer period of time and the FOMC has not achieved full confidence yet that inflation is on a sustainable path of 2.0% in order to start dialing back its restrictive policy. There was no active discussion on cutting interest rates at this meeting.

As always, elevated market volatility usually happens during the press conference afterwards. Prior to the Fed decision, the S&P 500 Index was -0.75%, the Russell 2000 Index was -0.35%, and the 10-year U.S. Treasury yield was -7 bps to 3.96%. Towards the end of the press conference Powell made a more definitive comment that a March interest rate cut is not on the table based on where the economy is now. On that comment alone the S&P 500 fell another 0.5%, small caps declined 1.2% and the 10-year U.S. Treasury yield went back up to 3.98%.

The next major economic data point is January Non-Farm payrolls this Friday. The key detail to watch is prior two-month revisions, which have been very negative over the past six months.

Wall Street Journal, June 15, 2022
Bloomberg, June 15, 2022