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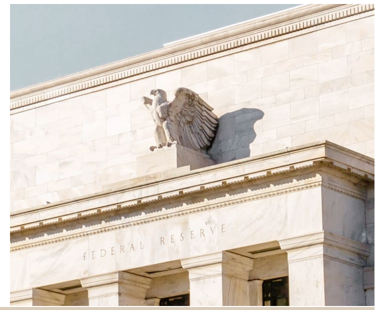
FOMC Meeting: Key Takeaways



March FOMC meeting **March 20, 2024**

Policy announcement

The Federal Open Market Committee (FOMC or the Committee) kept the federal funds rate unchanged at 5.25% – 5.50% for the fifth straight meeting. The FOMC stated that "it will not be appropriate to reduce the federal funds target range until inflation moves sustainably toward 2%." The Federal Reserve (Fed) continues reducing its holdings of U.S. Treasury securities, agency debt, and agency mortgage-backed securities.

Stated reasons

- Recent indicators suggest that economic activity has been expanding at a solid pace. Job gains remain strong, and the unemployment rate has remained low. Inflation has eased over the past year but remains elevated.
- The FOMC judges that the risks to achieving its employment and inflation goals are moving into better balance. The economic outlook is uncertain, and the Committee remains highly attentive to inflation risks.

Looking forward

- In considering any adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks.
- Also, the FOMC does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2%. The Committee will continue to take into account a wide range of information, including readings on labor market conditions, inflation pressures, inflation expectations, and financial and international developments.
- We still believe the Fed has reached its terminal policy rate for this cycle and that the Fed will proceed cautiously and attempt to move away from being overly restrictive. Attention will remain on the timing and the extent of rate cuts during 2024. The latest median federal funds target range projections from the FOMC imply that at least nine policymakers still expect three rate cuts this year, finishing 2024 at 4.6% and three additional cuts in 2025.

What else?

- The FOMC raised its gross domestic product growth forecast for 2024 and 2025, while decreasing slightly its unemployment expectation for 2024 and increasing its core inflation assumption for 2024 to 2.6%. This further bolsters the Fed's view of being able to accomplish a soft landing.
- Our expectation of only three rate cuts in 2024 is in line with the Fed's current view, but we find that the FOMC is still priced for a too-optimistic outcome regarding future Fed rate cuts in 2025. As the dis-inflation base effect wears off, we think it will prove difficult for inflation to move quickly toward the Fed's 2.0% inflation target.
- We continue to position portfolios defensively. We believe fixed-income investors may benefit by being most favorable short-term fixed income and neutral intermediate- and long-term.

Upcoming meeting schedule

- May 1 | June 12* | July 31

*Indicates the meeting is associated with a summary of economic projections. In addition, every meeting will be accompanied by a press conference.

Risk considerations

All investing involves risks including the possible loss of principal. Investments in fixed-income securities are subject to interest rate, credit/default, liquidity, inflation and other risks. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline in the bond's price. Credit risk is the risk that an issuer will default on payments of interest and principal. This risk is higher when investing in high yield bonds, also known as junk bonds, which have lower ratings and are subject to greater volatility. If sold prior to maturity, fixed income securities are subject to market risk. All fixed income investments may be worth less than their original cost upon redemption or maturity.

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