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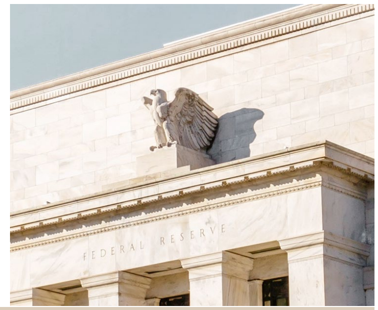

FOMC Meeting: Key Takeaways

May FOMC meeting **May 1, 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 sixth 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, but has announced a slowdown in the reduction of U.S. Treasuries starting in June.

Stated reasons

- Recent indicators suggest that economic activity has continued to expand at a solid pace. Job gains have remained 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 have moved into better balance over the past year. The economic outlook is uncertain and the Committee remains highly attentive to inflation risks.
- In recent months, there has been a lack of further progress toward the FOMC's 2% inflation objective.

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. As expected, the FOMC pointed out that the trajectory of inflation remains worrisome, and it is still not prepared to cut rates.

What else?

- The FOMC announced that beginning in June, it will slow the pace of the decline of U.S. Treasury securities from its balance sheet, reducing the monthly redemption cap from $60 billion to $25 billion. The Committee will maintain the monthly redemption cap on agency debt and agency mortgage-backed securities at $35 billion and will reinvest any principal payments in excess of this cap into Treasury securities.
- Our current view is that the Fed will attempt to cut rates twice before year-end; however, the probability for the federal funds rate to remain on hold at current levels is increasing as inflation remains sticky. 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

- June 12* | July 31 | September 18*| November 7 | December 18*

*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. Although Treasuries are considered free from credit risk, they are subject to other types of risks. These risks include interest rate risk, which may cause the underlying value of the bond to fluctuate.

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