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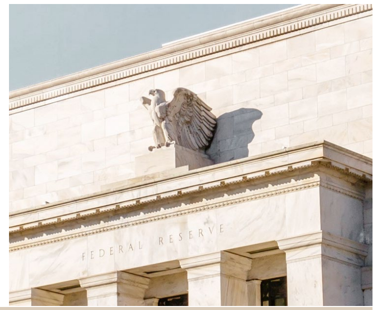
FOMC Meeting: Key Takeaways



June FOMC meeting **June 12, 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 seventh 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 and agency mortgage-backed securities, under the updated monthly cap of $25 billion and $35 billion, respectively, that started earlier this month.

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. 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; however, at this time it is still waiting for the disinflationary trend to solidify. The latest median federal funds target range projections from the FOMC imply that policymakers expect one rate cut this year, finishing 2024 at 5.1% and four additional cuts in 2025.

What else?

- The FOMC maintained its gross domestic product growth forecast for 2024, 2025, and 2026, while increasing slightly its unemployment expectation for 2025 and 2026. Upward revisions were evident in its headline and core inflation forecasts raising 2024 and 2025 estimates by 0.2% and 0.1%, respectively. 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, especially if 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

- 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

Forecasts and targets are based on certain assumptions and on views of market and economic conditions which are subject to change.

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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