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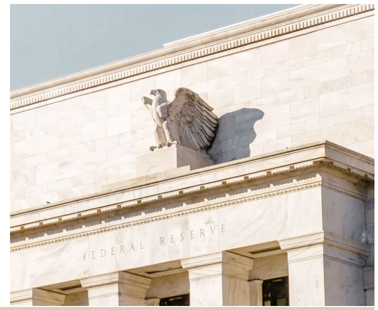

FOMC Meeting: Key Takeaways

September FOMC meeting | **September 18, 2024**

Policy announcement

The Federal Open Market Committee (FOMC or the Committee) reduced the federal funds rate by 50 basis points (100 bps equal 1%) to 4.75% – 5.00%, beginning a new interest-rate-cutting cycle. The Committee has gained greater confidence that inflation is moving sustainably toward 2%, and judges that the risks to achieving its employment and inflation goals are roughly in balance. 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.

Stated reasons

- Recent indicators suggest that economic activity has continued to expand at a solid pace. Job gains have slowed, and the unemployment rate has moved up but remains low. Inflation has made further progress toward the Committee's 2 percent objective but remains somewhat elevated.
- In light of the progress on inflation and the balance of risks, the Committee decided to lower the target range for the federal funds rate by 50 basis points to 4.75%-5.00%. Still, the economic outlook is uncertain, and the Committee is attentive to the risks to both sides of its dual mandate (price stability and full employment).

Looking forward

- In considering additional 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.
- 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.

What else?

- The FOMC kept its gross domestic product growth forecasts for 2024, 2025 and 2026 mostly unchanged around 2%, while increasing its unemployment expectation for all years but peaking at 4.4%. Also, it decreased its core inflation assumption for 2024 to 2.6% and to 2.2% in 2025. This further bolsters the Fed's view of being able to accomplish a soft landing.
- Our expectation of two more rate cuts in 2024 is in line with the Fed's current view, but we find that the FOMC is still priced for a more optimistic outcome regarding future Fed rate cuts in 2025. As the economic recovery resumes in the second half of 2025, we think it will prove difficult for inflation to decline further toward the Fed's 2.0% inflation target.
- We continue to expect positive fixed income returns mostly supported by the yield (income) component. We believe fixed income investors may benefit by being favorable on the intermediate portion of the curve, 3–7 year maturities.

Upcoming meeting schedule

- November 7 | December 18* | January 29

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

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