PRUDENTLY STEADY

Citing a still-growing economy, the Fed leaves interest rates unchanged and expects no rate hikes in 2020.

Key Takeaways

- As expected, the Federal Open Market Committee held the federal funds target rate range steady at 1.50–1.75%.
- Federal Reserve (Fed) officials expect no rate hikes until at least 2021.
- Fed officials made minor revisions to their October statement, changing language on the appropriateness of the current monetary policy and adding "global developments and muted inflation pressures" to the information they are accessing.
- Fed forecasts expect steady gross domestic product (GDP) growth, with reduced inflation expectations and unemployment.
- Chances of another rate cut at 2020 Fed meetings are as follows: 8.6% in January, 20.0% in March, and 32.4% in May, according to Bloomberg.[1]

The Federal Open Market Committee (FOMC) met market expectations by holding the benchmark federal funds rate steady, with Federal Reserve Chair Jerome Powell stating the Fed's current policy "is appropriate to address global developments and muted inflation pressures." He also indicated the Fed's stance could change if economic developments "cause a material reassessment of their outlook." Still, the committee indicated that monetary policy is likely to remain unchanged for an unspecified time. The decision to keep rates unchanged was unanimous, a departure from dissents in recent meetings.

Equities moved slightly higher during Chair Powell's press conference, signaling initial approval of the Fed's view that no rate changes will be needed until at least 2021. The benign forecast also helped reinforce the Fed's 2% inflation threshold for future rate increases. The 10-year U.S. Treasury yield was higher by 9 basis points the day after the Fed's announcement. In contrast, the 10-year Treasury note fell to 1.80% on the news. Below are changes in the Fed's statement from October to December:

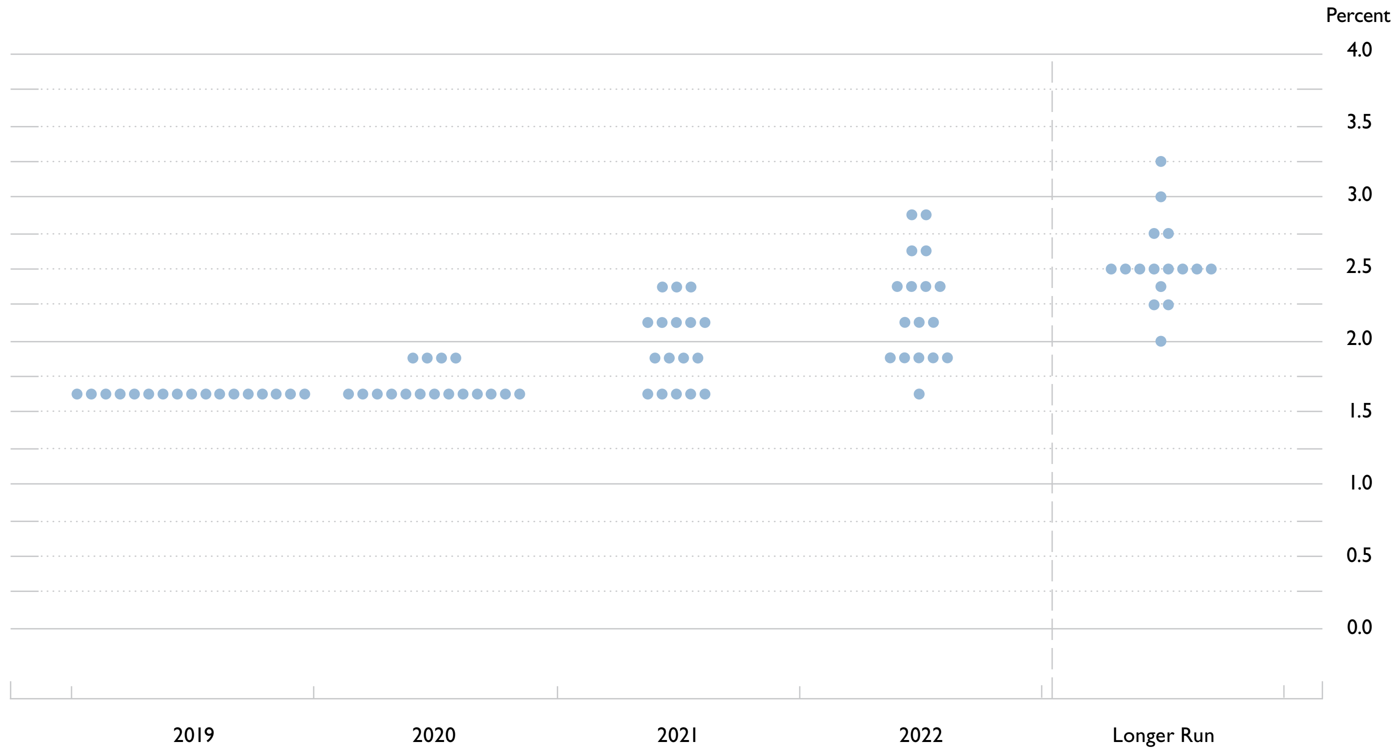
December 11, 2019 Statement	October 30, 2019 Statement
"The Committee decided to maintain the target range for the federal funds rate at 1-1/2 to 1-3/4 percent."	"**In light of the implications of global developments for the economic outlook as well a muted inflation pressures**, the Committee decided to lower the target…"
"**The Committee judges that the current stance of monetary policy is appropriate to support** sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective."	"**This action supports the Committee's view that** sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective **are the most likely outcomes, but uncertainties about this outlook remain.**"

[1]Source: Bloomberg Finance L.P., 12/12/19.

December 11, 2019 Statement	October 30, 2019 Statement
"The Committee will continue to monitor the implications of incoming information for the economic outlook, **including global developments and muted inflation pressures**, as it assesses the appropriate path of the target range for the federal funds rate."	"The Committee will continue to monitor the implications of incoming information for the economic outlook as it assesses the appropriate path of the target range for the federal funds rate."

The Fed Dot Plot Chart showed four Fed forecasters projecting one hike for 2020. The median projections saw the federal funds rate in 2020 remain at the 1.50-1.75% range and at the 1.75-2.00% range in 2021 (lower than predicted in September).

Target Federal Funds Rate Dot Plot



Source: U.S. Federal Reserve. The "dot plot" is a statistical chart consisting of data points plotted on a simple scale. Each shaded circle indicates the value (rounded to the nearest 1/8 percentage point) of an individual Federal Open Market Committee member's view, where each participant at that particular meeting thinks the federal funds rate should be at the end of the year for the current year, the next few years, and the longer run. One participant did not submit longer-run projections for the federal funds rate. Forecasts and projections are based on current market conditions and are subject to change without notice. Projections should not be considered a guarantee.

Other Projections

- GDP estimates for 2019, 2020 and beyond held steady at 2.2%, 2% and 1.9%, respectively.
- Unemployment is projected to move lower for 2020 from 3.7% to 3.5%.
- Inflation expectations were lowered from September. Core personal consumption expenditures (PCE), the FOMC's preferred gauge for inflation, was lowered from 1.8% to 1.6%. Long-run projections for core PCE remained at 2%.

Our Takeaway

There wasn't much drama leading to the Fed's decision to leave interest rates unchanged, especially with recent economic data showing resiliency in the labor market and consumer spending, coupled with a marginal and unexpected rally in the manufacturing sector. We believe the Fed continues to act prudently and with transparency to the markets. The committee's unanimous view of holding rates would indicate the near-term outlook for rates to be steady (barring an adverse event). This stance may reduce uncertainty, resulting in increased economic growth.

Definitions

One **basis point** is equal to 0.01%.

Core personal consumption expenditures (PCE) price index measures the prices consumers pay for goods and services without the volatility caused by energy and food prices.

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