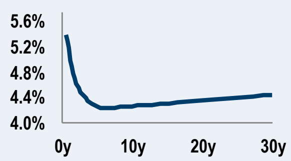
March 20, 2024

SPRING RAIN DELAY

- Federal Reserve (Fed) policymakers held overnight interest rates unchanged at 5.25% - 5.50%, but continue to maintain a cutting bias
- Inflation, after decelerating quickly in 2023, has pushed higher in early-2024, delaying the start date to any Fed cutting cycle
- Every "mid-course correction" in the last four decades has involved 75 bps of rate cuts, and there's no reason to think 2024 is different
- Dot plot was unchanged for 2024 but priced out one cut in 2025 signaling marginally reduced economic tail risk

Treas.	Now	1.45PM	Chg.
3mo	5.38	5.38	+0.00
2yr	4.62	4.67	-(0.05)
5yr	4.25	4.28	-(0.03)
10yr	4.27	4.28	-(0.01)
30yr	4.45	4.43	+0.02
3m/2s	(76)	(71)	-(5)
2s/10s	(35)	(39)	+4
2s/30s	(18)	(24)	+7



Source: Bloomberg

The Federal Reserve Open Market Committee (FOMC) left its target for overnight interest rates unchanged at a range of 5.25% – 5.50%, their fifth unchanged decision. Both markets and Fed officials have ruled out the necessity of further tightening barring any tail risk to inflation. Even though policy rates have remained unchanged for about 9 months, the bias among policymakers has shifted toward cutting, as the math of monetary policy grows more restrictive each time inflation eases. What remains uncertain is the timing of any cuts. Whereas some participants had hinted at an immediate need, the early-2024 economic data have delayed the near-term prospects of rate cuts. In sum, they're coming; we just don't know when.

Data since the FOMC met in January has been neutral in terms of growth and debatably higher in terms of inflation. The Atlanta Fed's GDPNow tracker estimates 1Q24 growth at 2.1%, below the 3.2% reported in 4Q23. Within that overall figure, consumer spending seems to have slowed, as evidenced by February's soft retail sales, while housing markets seem to have accelerated. Trends within inflation data are a bit more material for the Fed's purposes at the moment. Both January and February saw the core CPI print +0.4%, the fastest back-to-back readings in 9 months. It looks like both readings were "fluky," with a few volatile components or methodology shifts contributing to the elevated numbers. But for a Fed awaiting "more confidence" that inflation has decelerated to a 2% run rate, even noisy upside inflation results have an effect in delaying the most likely path for monetary policy.

The FOMC statement accompanying today's announcement was virtually unchanged, as the Fed maintained its pattern of adjusting the statement only in months when it does not release economic projections. For this month, the only shift was an upgrade to job growth, which no longer "moderated" but "remained strong."

March's economic projections were only a little changed from December's, save for a median of higher expected core inflation for 2024. That inflation upgrade is perhaps a mark-to-market after two months of higher price data, but only on the margin. Similarly, there were a few shifts to the dot plot. While expectations for 2024 are identical to December's, expectations are for fewer cuts in 2025, signaling marginally more confidence in growth for outer years. Each mid-course correction the Fed has embarked on since the 1990s involved 75 bps of cuts, then a wait-and-see approach. There's no reason to think 2024 will be any different in direction or magnitude, even if the starting point gets delayed a month or two. Taken together, it seems like policymakers are marginally more willing to accept slightly higher inflation, and yet still cut rates, as well as more confident that 75 bps is the right number of cuts. Reduced economic tail risk is a good thing.

Immediate market response to the FOMC statement was muted, with modest declines in yield across short to intermediate maturities, and a notably steeper yield curve. Risk assets were initially well-bid, with the S&P 500 rising about 0.4% from pre-announcement levels, and the dollar was very slightly weaker, though within the range of normal trading noise. Going into the meeting, it seemed that the fixed income markets were bearishly positioned, so a lack of hawkish outcome at the FOMC meeting could in and of itself be enough to drive a rally over the next few days.

FEDERAL RESERVE press release

• Job growth has not "moderated" but rather has now "remained strong"

Recent indicators suggest that economic activity has been expanding 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 Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. The Committee 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.

• Literally no other changes to the written statement

In support of its goals, the Committee decided to maintain the target range for the federal funds rate at 5-1/4 to 5-1/2 percent. 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. The Committee 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 percent. In addition, the Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities, as described in its previously announced plans. The Committee is strongly committed to returning inflation to its 2 percent objective.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

• Voting was unanimous

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Thomas I. Barkin; Michael S. Barr; Raphael W. Bostic; Michelle W. Bowman; Lisa D. Cook; Mary C. Daly; Philip N. Jefferson; Adriana D. Kugler; Loretta J. Mester; and Christopher J. Waller.

• Median GDP growth higher for 2024 - 2026

• Core PCE inflation slightly higher for 2024 after Jan/Feb CPI results

Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, March 2024

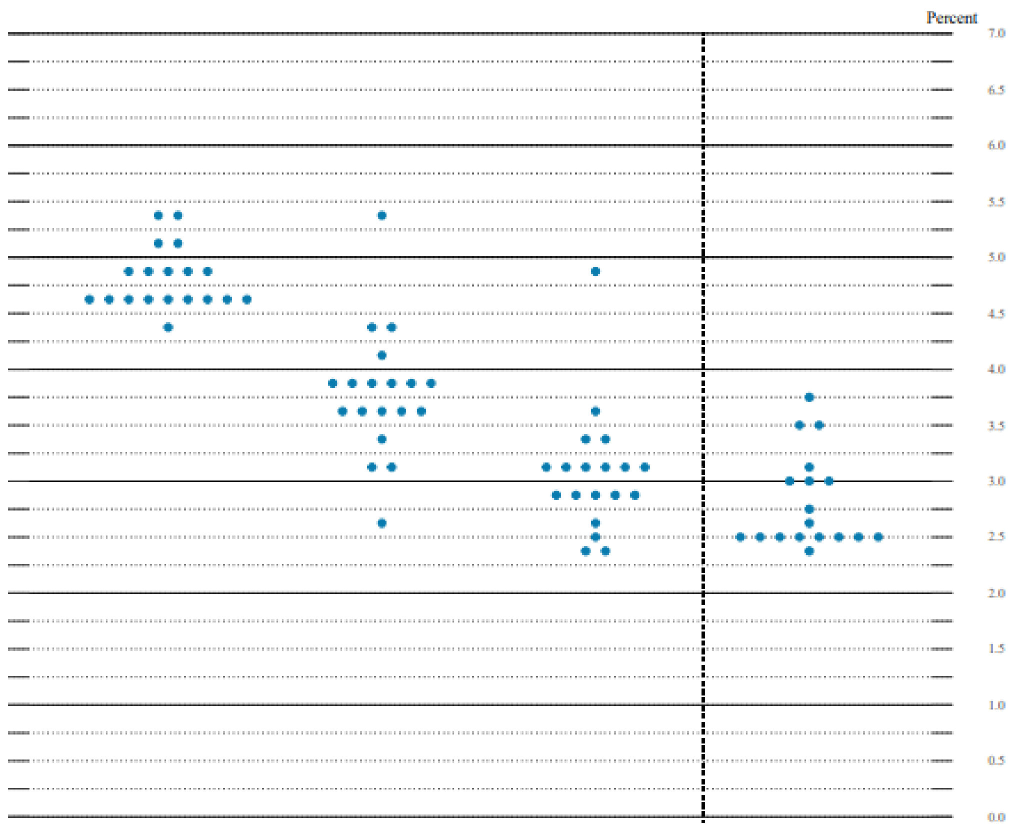
Percent

Variable	Median[1]				Central Tendency[2]				Range[3]			
	2024	2025	2026	Longer run	2024	2025	2026	Longer run	2024	2025	2026	Longer run
Change in real GDP	2.1	2.0	2.0	1.8	2.0–2.4	1.9–2.3	1.8–2.1	1.7–2.0	1.3–2.7	1.7–2.5	1.7–2.5	1.6–2.5
December projection	1.4	1.8	1.9	1.8	1.2–1.7	1.5–2.0	1.8–2.0	1.7–2.0	0.8–2.5	1.4–2.5	1.6–2.5	1.6–2.5
Unemployment rate	4.0	4.1	4.0	4.1	3.9–4.1	3.9–4.2	3.9–4.3	3.8–4.3	3.8–4.5	3.7–4.3	3.7–4.3	3.5–4.3
December projection	4.1	4.1	4.1	4.1	4.0–4.2	4.0–4.2	3.9–4.3	3.8–4.3	3.9–4.5	3.8–4.7	3.8–4.7	3.5–4.3
PCE inflation	2.4	2.2	2.0	2.0	2.3–2.7	2.1–2.2	2.0–2.1	2.0	2.2–2.9	2.0–2.5	2.0–2.3	2.0
December projection	2.4	2.1	2.0	2.0	2.2–2.5	2.0–2.2	2.0	2.0	2.1–2.7	2.0–2.5	2.0–2.3	2.0
Core PCE inflation[4]	2.6	2.2	2.0		2.5–2.8	2.1–2.3	2.0–2.1		2.4–3.0	2.0–2.6	2.0–2.3	
December projection	2.4	2.2	2.0		2.4–2.7	2.0–2.2	2.0–2.1		2.3–3.0	2.0–2.6	2.0–2.3	
Memo: Projected appropriate policy path												
Federal funds rate	4.6	3.9	3.1	2.6	4.6–5.1	3.4–4.1	2.6–3.4	2.5–3.1	4.4–5.4	2.6–5.4	2.4–4.9	2.4–3.8
December projection	4.6	3.6	2.9	2.5	4.4–4.9	3.1–3.9	2.5–3.1	2.5–3.0	3.9–5.4	2.4–5.4	2.4–4.9	2.4–3.8

• Median expectation is for 75 bps of rate cuts in 2024, unch'd from Dec, though the 2025 median removed one cut

• Longer run dots represent the idea of "neutral" interest rates; many policymakers seem hesitant to change these forecasts despite evidence that neutral is higher today than pre-pandemic

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate



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