

The Fed Moves Again

June 13, 2018



The FOMC Raises Interest Rates

As widely expected, the Federal Reserve continued its path of rate normalization by raising the target range for the federal funds rate by 25 basis points to 1.75% - 2.00%.

A few hours prior to the announcement, the market was assigning a 95% probability of a hike.

Today's increase marked the seventh rate hike since rates were lowered to zero following the financial crisis nearly a decade ago.

The FOMC statement indicated "that the labor market has continued to strengthen and that economic activity has been rising at a solid rate." It further noted that "risks to the economic outlook appear roughly balanced." There was no mention of slowing growth overseas.

In his press conference following the official statement, Chairman Jerome Powell acknowledged that inflation has moved to the Fed's 2% target, but it is "too early to declare victory" until inflation remains at the target for a sustained period.

Moving Forward

One take away from today's accompanying statement was the Fed's "dot-plot" which provides guidance on committee members' views of the future path of interest rates. The dot-plots are released quarterly and the past two releases have estimated a median of three rates hikes in 2018.

The most recent dot-plot, however, noted the median estimate was four hikes in 2018. While the median forecast did shift higher, it was a result of only a few dots moving higher (as opposed to a change from the entire committee). Consequently, this should not be viewed as entirely hawkish.

Following the Chairman's press conference, the market was assigning over a 75% probability of another rate hike in September.

By:

Shane A. Burke
Director
Portfolio Manager



Chairman Powell did mention the Federal Reserve's balance sheet unwind from quantitative easing is "proceeding smoothly" and on schedule.

Further, starting in January 2019, Chairman Powell will hold a press conference following every FOMC meeting. Over the past several years, the head of FOMC would read a statement and take questions quarterly. With the FOMC meeting eight times per year, this would double the amount of press conferences.

Chairman Powell also stated that he wants the committee's message to be less technical and more transparent.

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