

Making Sense

May 2024 Federal Open Market Committee Meeting

First Rate Cut Not Likely Until Late Fall

In Brief:

What just happened?

The Fed held the overnight rate at 5.25%-5.50%.

What is the impact?

Timing and number of cuts in 2024 is under scrutiny as inflation remains stubbornly higher than the Fed's preferred 2% target.

What to watch:

The Fed's next rate decision is June 12th, which will include the Fed's Summary of Economic Projections.

Ahead of that decision, the Fed will keep a close eye on inflation and wage data.

What now?

Review your financial plan.

Talk with your financial partner.

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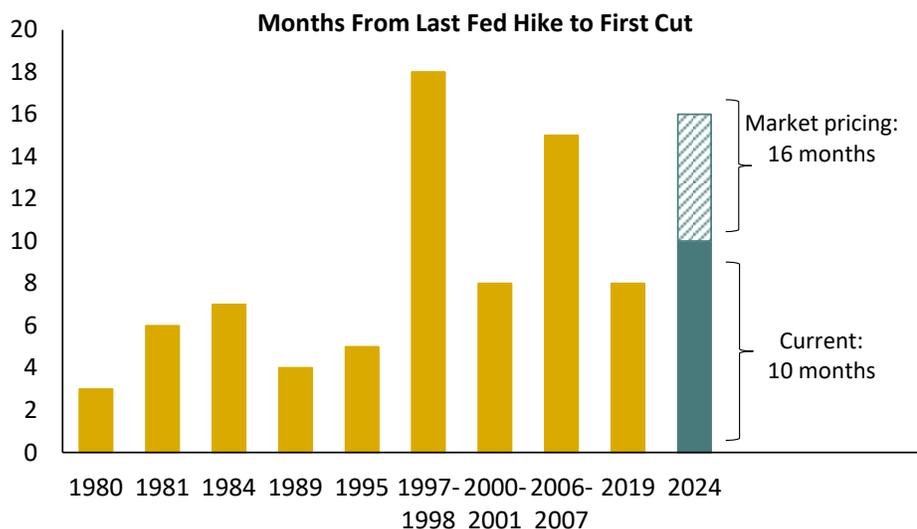
The Federal Reserve left the overnight rate unchanged today at a range of 5.25-5.50% and signaled it intends to leave rates unchanged for some time. At the start of this year, the Fed and markets were optimistic that after cool price data in the fourth quarter inflation was on a glide path back to 2%. However, over the last few months hotter data upset this narrative, and inflation looks potentially stuck at closer to 3%.

The Committee's meeting statement specifically acknowledged this "lack of further progress" toward the 2% inflation target. The FOMC also outlined its plan to taper quantitative tightening beginning in June by reducing the monthly redemption cap on Treasury securities to \$25 billion from \$60 billion. **In other words, the Fed is still reducing the size of its balance sheet but at a slower pace.**

In today's press conference, Chair Powell indicated the Fed believes the overnight rate is still restrictive and that it is "unlikely" the next interest-rate move will be a hike rather than a cut. That said, Powell said it will "take longer" for the Fed to gain confidence inflation is moving in the right direction. **Market pricing continues to imply the first interest-rate cut will not occur until November.**

There is precedent for the Fed holding interest rates flat for several months after a hiking cycle. In 2006-07, the funds rate was flat for 15 months before the Fed cut rates, and in the late 1990s, the funds rate was flat for 18 months. In other instances, however, these pauses have been shorter. For example, in 2019 it was only 8 months between the Fed's last hike and first cut.

Figure 1: Long Rate-Hike Pauses Are Uncommon but Not Unprecedented



Source: Apollo, Bloomberg

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