First Citizens Wealth™ Making Sense

Federal Open Market Committee Meeting | September 18, 2024

Fed Kicks Off Rate-Cutting Cycle with Larger 0.50% Move

The Federal Reserve announced a 0.50% cut to the federal funds rate in a long-awaited move and the first policy easing since the 2020 pandemic. The Fed has kept interest rates elevated for two years as it attempted to restore balance to a highly distorted economy and pull price inflation back down to its 2% target rate. Having made considerable progress in achieving these policy goals, **the Fed is now embarking on a tight balancing act: lowering interest rates significantly while keeping both rising unemployment and above-target inflation at bay.**

The market reaction was fairly muted. 2-year and 10-year Treasury yields — as well as the S&P 500 — changed little, demonstrating markets had already priced a reasonable chance of a 0.50% cut ahead of today's meeting.

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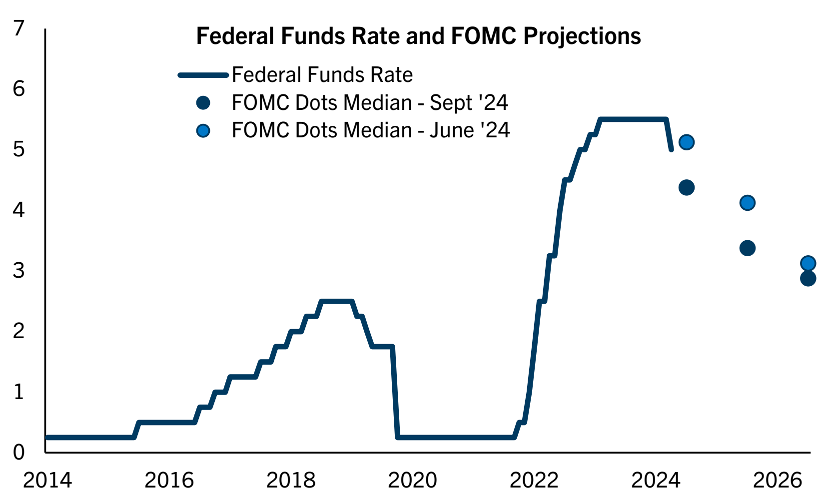
The federal funds rate — now down to 4.75-5.00% — is priced to fall by eight further 0.25% cuts to about 3% by December 2025. This slightly exceeds the path in the Fed's Summary of Economic Projections, which showed policymakers expect growth and unemployment to stabilize with inflation falling to 2% in short order.

In his post-meeting press conference, Fed Chair Powell reiterated his view that the Fed's interest-rate policy is restrictive. Policymakers do not wish to see any further cooling in the labor market, where job growth has slowed markedly and the unemployment rate has moved up from 3.4% to 4.2%. Chair Powell did not give strong signals on how the FOMC would act at future meetings, but he made clear that more cuts are in the pipeline. As a result, markets will be following the next employment report — released on October 4 — for the next big signal for the path of interest rates.

We continue to believe the economy is in a [mostly normal] state and that the Fed's restrictive policy stance looks offsides even after today's 0.50% cut. Policymakers face [tougher decisions] today as markets, inflation, and the labor market increasingly offer blurred — if not conflicting — signals. We think the path for shorter-term rates is downward, but as always longer-term rates will depend on the growth and inflation outlook. **Many of the fundamental factors underlying markets and the economy remain in place, but we expect greater uncertainty to translate into heightened volatility for the foreseeable future.**



Source: Federal Reserve, Bloomberg