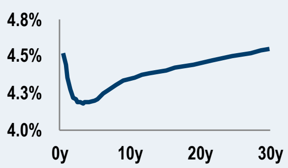
November 7, 2024

A GLIDEPATH

- Federal Reserve policymakers cut overnight interest rates by 0.25% to a range of 4.50% - 4.75%, continuing the cutting cycle begun in Sept.
- The statement accompanying today's decision was little changed from the prior edition, suggesting rate cuts remain on a glidepath
- While economic data have been noisy of late, the multi-month throughline of growth and inflation trends are both broadly stable
- It will likely take until the June meeting before monetary policymakers have the first chance to react to fiscal policy in the new government

Treas.	Now	1.45PM	Chg.
3mo	4.53	4.52	+0.00
2yr	4.23	4.21	+0.02
5yr	4.20	4.18	+0.02
10yr	4.35	4.34	+0.01
30yr	4.55	4.55	+0.00
3m/2s	(30)	(32)	+2
2s/10s	12	14	-(1)
2s/30s	33	34	-(2)



Source: Bloomberg

The Federal Reserve Open Market Committee (FOMC) reduced its target for interest rates by 0.25% to a range of 4.50 – 4.75%, the second cut of the current cycle. While any two points make a straight line, the November action seems to set a glidepath for at least the middle phase of this rate-cut cycle. We think the quick start (Sept), steady midpoint (Nov, Dec, and maybe Jan), and shallow finish (Mar, Jun) form a good base case of what this midcycle adjustment will look like. That base case assumes little to no economic downturn in 2025, which, with fiscal policy very much in flux right now, is a pretty big assumption.

Data since the FOMC meeting in September has been extremely noisy. Nowhere is the noise more obvious than in the labor markets. Just two weeks after the Fed's super-sized Sept. cut, job gains went through the roof. And just four weeks after that, job gains crashed through the floorboards. The reality probably lies somewhere in the middle, but for the moment, the only logical approach is to take some sort of average across these noisy releases. That average suggests decent, if slightly slower, job gains. Other measures of economic growth are meanwhile buoyant, with consumer spending and business investment both proceeding healthily. We are anticipating a spurt of economic activity in the wake of the 2024 election as well—not because of the outcome, but rather because the paralytic uncertainty leading up to the election will ease. When it comes to inflation, the recent data are mixed, though to a lesser degree than the jobs data. Core PCE inflation is running at a +2.3% 3-month annualized pace after a slight increase in September. That result is a touch warmer than the Fed prefers, but well down from the early 2024 pace. Just as importantly, inflation volatility is falling, which should increase confidence that price levels are indeed holding close to the 2% target.

The statement that accompanied today's FOMC rate cut was relatively little changed from the September version. There was arguably a downgrade of growth assessment with the addition that "labor market conditions have generally eased," but it was a small downgrade at best. Risks between growth and inflation are "roughly in balance." Going forward, one of the biggest questions facing the FOMC will be how executive action under a Trump Administration and fiscal policy influences economic outcomes. It will take until at least March before we have any confidence in policy path and until at least June before any policy begins to impact economic data. Until there is actual data in hand, we can be confident that the Powell Fed will not react to any executive or fiscal policy. Assuming, of course, that it is still the Powell Fed by that point.

Market reaction to today's FOMC announcement was muted—not surprising since a 0.25% cut was about 95% priced going into the meeting and there were few forecasts of material changes to the statement. In the immediate aftermath, interest rates gave back a small portion of their sizable morning rally, but well within the range of noise. Equities were similarly about unchanged from pre-announcement levels and the dollar, while still down on the day, rallied very slightly. Overall, a boring response to an as-expected announcement and statement.

FEDERAL RESERVE press release

• Labor market conditions have "generally eased" which is a pretty marginal change from last statement

Recent indicators suggest that economic activity has continued to expand at a solid pace. Since earlier in the year, labor market conditions have generally eased, and the unemployment rate has moved up but remains low. Inflation has made progress toward the Committee's 2 percent objective but remains somewhat 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 roughly in balance. The economic outlook is uncertain, and the Committee is attentive to the risks to both sides of its dual mandate.

• Forward guidance was similarly unchanged

In support of its goals, the Committee decided to lower the target range for the federal funds rate by 1/4 percentage point to 4-1/2 to 4-3/4 percent. In considering additional 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 will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities. The Committee is strongly committed to supporting maximum employment and 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 is again unanimous after Bowman's dissent against 50 in Sept.

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; Beth M. Hammack; Philip N. Jefferson; Adriana D. Kugler; and Christopher J. Waller.

GUY LEBAS, CHIEF FIXED INCOME STRATEGIST | GLEBAS@JANNEY.COM | 215.665.6034