Current Market News

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Thursday, October 31, 2019

The rate cut - what happened, what's next, and our take

What happened?

In line with market expectations, the Federal Reserve Board cut the Fed Funds rate by 25 basis points on October 30 to a range of 1.5% to 1.75%. This marked the third rate cut since July. The broad economic backdrop for the rate cut consists of low inflation, moderating growth, international headwinds, and weak business investment juxtaposed against a strong U.S. labor market and healthy consumer spending. Chairman Powell's press conference signaled that additional cuts will be dependent upon future data releases, and that "[O]ur current stance of policy is appropriate and will remain so as long as the outlook is broadly in keeping with our expectations."

What's next?

Financial market expectations for a future rate cut have now been pushed well into 2020. In his post-announcement press conference, Chairman Powell also indicated that the recent U.S.-China trade negotiations along with Brexit developments may have reduced some of the tail risk associated with those concerns. In short, it's likely that further rate cuts would require clear signs of economic or financial market deterioration. While the Fed's "dot plot" – intended to convey members' interest rate expectations – is, on average, higher than rates implied by pricing in the Fed Funds futures market, Chairman Powell indicated that a rate hike would require, "[I]nflation as moving up or in danger of moving up significantly, and we really don't see that now."

Our take:

We continue to believe the U.S. economy will withstand this temporary slowdown, and the Fed's recent rate cut supports this thesis. Though the statement today was more balanced than previous meetings, we still believe the Fed stands ready to act as needed if incoming data deteriorates. Monetary policy should continue to be supportive of U.S. equities and overall growth – the impact of recent rate cuts is still working through the system. The various headwinds, while relatively large in number, are unlikely to be of sufficient force to derail our slow and steady economic growth forecast.

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