"MARCH"ING OUT LIKE A LAMB

Kevin Flanagan – Head of Fixed Income Strategy
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The transformation of Federal Reserve (Fed) policy continues. What was viewed as a hawkish Federal Open Market Committee (FOMC) outcome at the December meeting has now morphed into a more dovish outlook. In fact, one could conclude the Fed is leaving March by "going out like a lamb."

So far in 2019, Fed policy decisions have graduated to be less about an actual rate move to the question of what the blue dots are saying instead. Remember, these blue dots represent the policy makers' own projections for the future Federal Funds Target Rate over a period of time. So, not moving the rate at an official FOMC meeting during the first half of this year is not necessarily of paramount importance, nor expected, for that matter. Instead, it has become all about their policy statement and Fed Funds forecasts.

With that in mind, the results of the March FOMC gathering were being anxiously awaited. Interestingly, fixed income investors had become accustomed throughout 2017 and 2018 to the Fed essentially guiding the markets as to when a potential rate hike would be coming. While Fed-speak had led to expectations for no action at this latest policy gathering (the actual result on the Fed Funds Rates front), the uncertainty quotient was dialed up because investors were not as certain about the Fed's blue dot path.

Overall, the voting members do envision some slowing in U.S. growth this year, but, to quote Chairman Powell, they still feel the economy is "in a good place." This outlook was essentially confirmed in the March policy statement. In addition, the lack of inflation places no urgency on the Fed to contemplate a rate hike anytime soon, even though core measures are straddling the 2% threshold.

That brings us back to the 'blue dots' This is where things got a little interesting. At the December FOMC meeting, the Fed's projection was for two rate hikes this year. The overarching expectation was that this forecast would be dialed back, with fed funds futures priced for a revision down to no increases at all for 2019. The policymakers delivered on this front and gave the markets an early Spring present by matching their expectations. For the Fed to move from 'two' increases down to 'none' is a rather large adjustment from a central bank's point of view, and begs the question, does the FOMC foresee a more pronounced economic slowdown looming ahead.

Conclusion

Don't forget the balance sheet. The Fed also gave us an indication that the drawdown will be coming to an end during the second half of this year. The Fed, and the UST market as a result, is in data-dependent mode—but what happens if the data reveals that Q1 was the trough in activity? There's still a lot of 2019 to go, and if the economy does improve going forward, it could be a bumpy ride.

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DEFINITIONS

Federal Reserve : The Federal Reserve System is the central banking system of the United States.

Hawkish : Description used when worries about inflation are the primary concerns in setting monetary policy decisions.

Federal Open Market Committee (FOMC) : The branch of the Federal Reserve Board that determines the direction of monetary policy.

Dovish : Description used when stimulation of economic growth is the primary concern in setting monetary policy decisions.

Blue dots : the midpoint target range/level of the FOMC participants' projections for the future Federal Funds Rate.

Rate Hike : refers to an increase in the policy rate set by a central bank. In the U.S., this generally refers to the Federal Funds Target Rate.

Inflation : Characterized by rising price levels.