

FED WATCH: THE WAITING GAME CONTINUES

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Unsurprisingly, the [Fed](#) did what was widely expected yet again and kept the Fed Funds target unchanged at the March [FOMC](#) meeting. As a result, the trading range remains at 5.25%–5.50%, still residing at a more than 20-year-high watermark. For those keeping track, this represented the fifth consecutive FOMC meeting where the policy maker decided to take no action on the rate front. While Powell & Co. all seem to be on the same page that a [rate cut](#) will more than likely occur sometime later this year, the next point to consider would then be when will this potential easing move occur and, more importantly, what will the rate cutting episode eventually look like.

As I've mentioned in prior blog posts, there had been a disconnect between what the money and [bond markets](#) were expecting in terms of rate cuts and what the Fed was thinking on that front. Heading into this year, this March meeting was viewed by the markets as the timeframe for when the first in a series of about six rate cuts would begin to occur in 2024. Well, that's a moot point now, isn't it? The "good" news is that the [U.S. Treasury \(UST\)](#) arena, et al., has now come closer to the Fed's expectations for only three rate cuts this year, at least as of this writing, with June becoming the "new March" for the initial cut.

Certainly, the labor market and inflation data has thus far provided the Fed with no urgency to consider easing monetary policy anytime sooner than June. In fact, the recent reports for employment and [CPI/PPI](#) could arguably call a June "liftoff" into question if the data continue to come in like this. As a result, the voting members apparently feel they can just sit back and be patient right now.

Looking ahead, though, did Chairman Powell at least offer any clues as to what he is thinking regarding the timing for rate cuts in his recent Semiannual Monetary Policy testimonies before Congress? Interestingly, Powell stated the Fed is "not far" from confidence to begin cutting rates and that inflation doesn't have to get down all the way to the Fed's 2% target to do so.

But what does that mean exactly? In my opinion, continued progress on [inflation](#) will determine whether a June rate cut remains the starting point. While the UST market is laser-focused on the CPI data, the Fed's 2% target is based on its preferred measure of core [PCE](#), which presently is at +2.8%. Taking Powell at his word, one has to wonder if perhaps +2.5% will be the "real" Fed inflation target. This is where things would get tricky because that could willy-nilly mean that core CPI may still be at a rather elevated +3% to +3.5%. Would the Fed really cut rates if core CPI was that high?

Also, let's not forget [quantitative tightening \(QT\)](#). The Fed's [balance sheet](#) plans are now coming into view. An imminent end to QT does not appear to be on the table just yet, but reducing the pace of its balance sheet runoff looks like it will become part of the monetary policy landscape later in 2024, as well.

The Bottom Line

What should investors look for in terms of monetary policy going forward? If history is any guide, the Fed will not just begin cutting rates without any guidance on that front. So, if the Fed is going to begin easing rates in June, that puts the onus on the May

FOMC meeting to begin the process.

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DEFINITIONS

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

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

Rate Cut: A decision by a central bank to reduce its main interest rate, usually to influence rates charged by other financial institution.

Bond market: The bond market—often called the debt market, fixed-income market, or credit market—is the collective name given to all trades and issues of debt securities. Governments typically issue bonds in order to raise capital to pay down debts or fund infrastructural improvements.

Treasury: Debt obligation issued by the U.S. government with payments of principal and interest backed by the full faith and credit of the U.S. government.

Consumer Price Index (CPI): A measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. The CPI is calculated by taking price changes for each item in the predetermined basket of goods and averaging them; the goods are weighted according to their importance. Changes in CPI are used to assess price changes associated with the cost of living.

Producer Price Index: weighted index of prices measured at the wholesale, or producer level.

Inflation: Characterized by rising price levels.

Personal Consumption Expenditures (PCE): Refers to a measure of imputed household expenditures defined for a period of time.

Quantitative Tightening: Quantitative easing is a process whereby a central bank targets lowering longer-term interest rates by purchasing bonds and other securities to stimulate the economy. Quantitative tightening is the reverse process whereby securities are either sold or the proceeds of maturing securities are not reinvested with the goal of tightening economic conditions to prevent the economy from overheating.

Balance sheet: refers to the cash and cash equivalents part of the Current Assets on a firms balance sheet and cash available for purchasing new position.