
FED WATCH: PUSH IT BACK, PUSH IT BACK, WAY BACK

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Once again, the Fed kept rates unchanged at the May FOMC meeting. As a result, the Fed Funds trading range remains in the 5.25% to 5.50% band introduced in July 2023 and still resides at a more than 20-year high-water mark. For those keeping track, this represents the sixth consecutive FOMC meeting in which policy makers decided to take no action on the rate front. Despite economic and inflation data that continue to challenge rate cut expectations, Powell & Co. still seem to expect that a rate cut will more than likely occur sometime later this year. However, what investors are finding out is that this potential easing move keeps getting pushed back, and increasing uncertainty about what this potential rate cutting episode might eventually look like has entered into the equation.

While the Fed did what was widely expected yet again and kept the Fed Funds target unchanged, these are relatively new expectations. The monetary policy outlook here in the U.S. has been turned on its head thus far in 2024. Just a few short months ago, the money and bond markets were looking for six rate cuts this year. But as of this writing, the implied probability for Fed Funds Futures is priced for fewer than two rate cuts. It is truly amazing to see how rate cut expectations went from double the Fed's dot plot to fewer than the three moves the Fed is forecasting. In addition, the initial easing move has gone from March to June and now to September.

Against this backdrop, investors have been trying to ascertain what exactly Powell & Co. will do at the remaining five FOMC meetings this year. Obviously, the policy makers' data dependence remains on full display. Certainly, the labor market and inflation data have not only provided the Fed with no urgency to consider easing monetary policy anytime soon, but they have also called into question whether any rate cuts are needed at all. As a result, the voting members apparently believe they can just sit back and be patient.

Looking ahead, though, you get the sense that Chairman Powell is itching to cut rates, but the data needs to lead him there. But what does that mean exactly? In my opinion, renewed progress on inflation is necessary, and of course, some softening in labor market conditions would also help the Fed chairman get there.

Also, let's not forget [quantitative tightening \(QT\)](#). Although the Fed is not cutting rates yet, its balance sheet plans are coming into focus. While an imminent end to QT does not appear to be on the table as of now, reducing the pace of the balance sheet run-off will now become part of the monetary policy landscape in 2024.

The Bottom Line

What should investors look for in terms of monetary policy going forward? If history is any guide, the Fed will not begin cutting rates without any guidance on that front. At this point, I'd start with the Fed's dot plot and say that probably fewer than three rate cuts seems to be a reasonable scenario. But stay tuned, as things can change quickly.

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