# WHAT WILL THE FED DO IN 2019?

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Without a doubt, the Federal Reserve (Fed) outlook had changed considerably by the close of 2018.

Prior to Fed Chairman Powell's recent "walk-back" comments regarding where the "neutral" Fed Funds target sits, market expectations were centered on at least two rate hikes in 2019. However, as of this writing, Fed Funds Futures are pointing to no increases this year—and then even a possible rate cut in 2020.

In our opinion, we see the Fed going back to the "normal" way of doing business in 2019. Policy makers will be data dependent. The FOMC removed the phrase "The stance of monetary policy remains accommodative" in September.

So, where Fed Funds sit as compared to what is viewed as neutral (which is a moving target) has already been part of the equation. A data-dependent Fed is how the FOMC would have operated prior to the financial crisis/great recession; telegraphing when each move would occur every three months was not the policy norm.

Assuming the hard data confirms a slowing in U.S. economic growth (which is what the policy makers themselves are expecting), our base case revolves around two rate hikes in 2019, and then the Fed will pause to reassess.

Please read our full 2019 outlook here.

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## DEFINITIONS

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

**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.

**Fed fund futures** : A financial instrument that let's market participants determine the future value of the Federal Funds Rate.

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

**Monetary policy** : Actions of a central bank or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.