

## Fed Holds Rate Steady, Sees Risks Moving into Better Balance

The Federal Reserve's policy setting Federal Open Market Committee (FOMC) held rates steady for the fourth straight meeting, as expected, and although they did not deliver the definitive clue that rate cuts were imminent, they did remove the last vestiges of references to rate hikes. The official statement noted that "...economic activity has been expanding at a solid pace," and that "risks to achieving its employment and inflation goals are moving into better balance." That's the Fed's way of saying they like where things are.

The statement did away with the tightening bias, removing the passage from the prior statement that began, "In determining the extent of any additional policy firming..." The new statement replaced that passage with, "In considering any adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks." And while that "any adjustments" language certainly opens the door to rate cuts it doesn't suggest the FOMC is in any hurry to begin. In fact, the statement went on to say, "The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent." And although we have clearly seen inflation moving down rapidly, most recently with the December core PCE falling to a 1.9% annual pace over the last six months, the FOMC is apparently not yet ready to declare victory.

Chair Powell addressed this point during his press conference. He acknowledged the last six months of inflation data had been good, but he said the committee wanted to see more data, wanted to see this trend extend for more time to build confidence that inflation is moving down to their target.

Powell also said in no uncertain terms that the committee believed the policy rate had reached its peak for the cycle and that it would be appropriate to dial back the policy rate at some point this year. What seems apparent is that the Fed is not ready to move just yet and would prefer it if the market wasn't in such a rush to price in cuts.

Bond markets were little changed in the wake of the announcement, having already staged a strong rally earlier in the day on weak economic data and renewed concerns about the health of banks, following disappointing earnings news from a New York regional bank. However, bonds rallied a bit during his press conference, pushing the two-year Treasury note yield as low as 4.20% and the 10-yr to 3.94%. But as the press conference drew to a close, yields rose back to roughly their pre-announcement levels. Meanwhile, fed funds futures have pared back the odds of a March rate cut from about 50% a few days ago to 37% currently. If one were able to poll FOMC voting members, I suspect they'd place the odds of a March cut near zero.

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## Market Indications as of 2:27 P.M. Central Time

DOW	Down -231 to 38,236 (HIGH: 38,467)
NASDAQ	Down -272 to 15,238 (HIGH: 15,628)
S&P 500	Down -62 to 4,863 (HIGH: 4,928)
1-Yr T-bill	current yield 4.72%; opening yield 4.78%
2-Yr T-note	current yield 4.26%; opening yield 4.33%
3-Yr T-note	current yield 4.05%; opening yield 4.12%
5-Yr T-note	current yield 3.90%; opening yield 3.97%
10-Yr T-note	current yield 3.97%; opening yield 4.04%
30-Yr T-bond	current yield 4.22%; opening yield 4.26%

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