

## Bonds Retreat as Fed Signals Patience

Fed officials voted unanimously this afternoon to hold the overnight target range steady at 5.25% to 5.50% for the seventh consecutive meeting, while the updated *dot plot* unexpectedly trimmed the number of rate cuts this year to just one.

The one-page official statement showed what had been a “lack of further progress on inflation” at the previous meeting, has improved to “modest further progress.” Other than that, very little change. The key sentence in the statement continues to be *“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.”*

The updated summary of economic projections (SEP) showed *no change* in the 2024 GDP outlook (+2.1%) or the yearend unemployment rate (4.0%) from the March meeting. However, the yearend inflation outlooks for both PCE (+2.6%) and core PCE (+2.8%) moved two-tenths higher.

This morning’s favorable inflation data was expected to be impactful enough to sway committee members to retain 50 bps of forecasted rate cuts even as the year dwindles away. However, the so-called “dot plot,” representing the overnight rate target projections of 19 voting and non-voting committee members was a surprise as the number of expected quarter point cuts this year was lowered from three at the March meeting to just one.

The dispersion of the 2024 dots shows eight members expect *two* quarter point cuts this year, seven expect one and the remaining four believe the committee will hold steady through yearend. The dots for both 2025 and 2026 indicate 100 bps of total easing, with a median neutral rate of 2.75% by early 2027.

In the post-meeting press conference, Fed Chairman Powell led off by saying inflation has “eased somewhat” but is *still too high*. He mentioned that the labor market was in better balance, while consumer spending has slowed but “remains solid.” Powell considers current monetary policy to be “well positioned” but wants to see further improvement before the committee begins reducing the funds target. *He reiterated that decisions will be made on a meeting-by-meeting basis.*

In the Q&A portion of the press conference, in response to why the rate outlook for the remainder of the year had become so conservative, Powell cautioned that (unlike last year) the lower base effect this fall would work against annual inflation progress.

Several questions centered around the renewed possibility of a September rate cut, to which Powell responded that future data would determine future policy from amongst a range of plausible possibilities. As usual, Powell was maddeningly balanced in his responses. *He doesn’t have the answers because the committee hasn’t made its’ decision.* That doesn’t mean reporters won’t ask.

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The bottom line hasn't changed: *we're not there yet*. This morning's CPI release *lays the groundwork* for a mid-September cut, but the reality is Fed officials will digest inflation numbers for both July and August before that vote.

The bond market has given back roughly half of the morning's rally, but it might be a mistake to read too much into Powell's measured dash of cold water. Inflation was uncomfortably warm for the entire first quarter; it'll take several months of sustained cooling before Fed confidence is restored.

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## Market Indications as of 2:59 P.M. Central Time

DOW	Down -14 to 38,734 (HIGH: 40,004)
NASDAQ	Up 278 to 17,622 (NEW HIGH)
S&P 500	Up 38 to 5,413 (NEW HIGH)
1-Yr T-bill	current yield 5.12%; opening yield 5.13%
2-Yr T-note	current yield 4.77%; opening yield 4.84%
3-Yr T-note	current yield 4.52%; opening yield 4.60%
5-Yr T-note	current yield 4.33%; opening yield 4.42%
10-Yr T-note	current yield 4.33%; opening yield 4.41%
30-Yr T-bond	current yield 4.49%; opening yield 4.54%

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