

## Markets Rally Despite a Measured Fed

Fed officials voted unanimously this afternoon to hold the overnight target range steady at 5.25% to 5.50% for the eighth consecutive meeting, while tweaking language in their one-page official statement to lay the foundation for a possible rate cut in September. The key wording change from the June meeting replaces “the Committee remains highly attentive to inflation risks” with “the Committee *is attentive to both sides of its dual mandate*.” In other words, the Fed is aware that holding rates at elevated levels for too long would have a negative effect on the labor market.

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One sentence that remains in the official statement (suggesting further patience) is “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.” Powell would repeat this word-for-word during the post-meeting press conference.

The Fed Chairman began the press conference by restating “the Committee is strongly committed to getting inflation back to its 2% inflation target” and added that members are “attentive to both sides of its dual mandate.” He said spending has slowed but remains solid, while the labor market is in better balance. He added that inflation has eased but remains above the 2% goal. *No surprises here.*

In the Q&A session, Powell said *the committee has made no decisions about future meetings, although he admitted that If the totality of data supports it, a rate cut could happen as soon as the next meeting.* He reiterated this point in saying the path ahead will depend on how the data evolves. He did mention there was considerable discussion about the timing of rate cuts at this week’s meeting.

The Fed Chairman emphasized the downside risk to employment is real. Bond yields fell after Powell said he can imagine a scenario in which there would be anywhere from zero to *several rate cuts.*

The futures market has now fully priced-in two quarter point cuts before year end with roughly a 70% chance of a third. Powell pushed back on bond market exuberance during the press conference with little success. There are two rounds of employment and inflation reports for Fed officials to consider before the next vote on September 18th. *Any of these releases are capable of rewiring market expectations.*

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## Market Indications as of 2:34 P.M. Central Time

DOW	Up 104 to 40,847 (HIGH: 41,198)
NASDAQ	Up 426 to 17,573 (HIGH: 18,647)
S&P 500	Up 97 to 5,533 (HIGH: 5,667)
1-Yr T-bill	current yield 4.77%; opening yield 4.79%
2-Yr T-note	current yield 4.28%; opening yield 4.36%
3-Yr T-note	current yield 4.10%; opening yield 4.18%
5-Yr T-note	current yield 3.95%; opening yield 4.04%
10-Yr T-note	current yield 4.07%; opening yield 4.15%
30-Yr T-bond	current yield 4.35%; opening yield 4.41%

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