Uneventful Fed Minutes Calm Markets

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The minutes to the December FOMC meeting offered little insight into the committee's mindset that wasn't already known or assumed. The biggest takeaway was the simple affirmation that inflation concerns have risen as "almost all participants judged that upside risks to the inflation outlook had increased."

Rationale included "recent stronger-than-expected readings on inflation and *the likely effects of potential changes in trade and immigration policy*." Other reasons mentioned were "possible disruptions in global supply chains due to geopolitical developments, a larger-than-anticipated easing in financial conditions, stronger-than-expected household spending, and more persistent shelter price increases."

Despite concerns, committee members believe inflation will continue to move toward their 2% target, although they mentioned that the process could take longer than previously anticipated. Members noted that *disinflation* continues across a broad range of core goods and services prices. On shelter costs (the primary driver of lingering inflation), committee members mentioned "the pace of rent increases for new tenants continue to moderate and will eventually be reflected further in housing services prices."

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By contrast, risks to employment have decreased since the September meeting. In December, Fed officials saw "no signs of rapid deterioration in labor market conditions, and anticipated the future outlook would likely remain solid."

Three weeks ago, it was clear that committee members had signaled a pause in their rate cutting campaign. The minutes reiterated a position Fed officials had been stressing long before that meeting – "participants indicated that the Committee was at or near the point at which it would be appropriate to slow the pace of policy easing."

Assuming the FOMC votes to hold the overnight rate steady on January 29th, the question becomes - *when will the Fed be able to resume its easing campaign?* The answer is *uncertain*, a word that appeared 11 times in the minutes. The biggest reason for this uncertainty is *trade policy*, mentioned nine times.

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Committee members and investors should have a much better understanding of how tariffs will unfold long before the March FOMC meeting.

Bonds had sold off before the release but have since rallied.

Market Indications as of 2:54 P.M. Central Time

DOW	Up 98 to 42,627 (HIGH: 45,014)
NASDAQ	Down -25 to 19,465 (HIGH: 20,174)
S&P 500	Down -3 to 5,906 (HIGH: 6,090)
1-Yr T-bill	current yield 4.17%; opening yield 4.17%
2-Yr T-note	current yield 4.27%; opening yield 4.29%
3-Yr T-note	current yield 4.34%; opening yield 4.36%
5-Yr T-note	current yield 4.45%; opening yield 4.47%
10-Yr T-note	current yield 4.67%; opening yield 4.69%
30-Yr T-bond	current yield 4.90%; opening yield 4.92%