Fed Holds Steady, but September's Still a Toss-up

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By a 9-2 count, Fed officials voted to hold the overnight funds target unchanged in a range of 4.25% to 4.50% for the fifth consecutive FOMC meeting. Two committee members dissented for the first time since 1993, with Fed Governors Chris Waller and Michelle Bowman favoring an immediate quarter point reduction. *Unusual but expected.*

The one-page official statement, a frequent source for monetary policy clues, was nearly identical to the statement from the previous meeting. The only notable change was a downgrade in the Fed's view of the economy. Whereas economic growth in mid-June had continued to "expand at a solid pace," the updated assessment was that growth had "moderated in the first half of the year." The clue in this case might be that the committee now perceives a weakening economy, which could indicate the first rate cut of the year has been teed-up for the September meeting ...*or not*. With no change in the rate target and no fresh dot plot or economic projections, all attentions shifted to Chairman Jerome Powell's post-meeting press conference.

In his opening statement, Powell described the U.S. economy as solid, and said the Fed is "well positioned to respond in a timely way to potential economic developments." He characterized this morning's GDP release as stronger than expected but noted GDP growth for the first six months was around +1.2%, less than half of last years' pace. The Chairman was surprisingly dovish in his prepared assessment of inflation, mentioning that tariffs had begun to push prices of some goods higher, while services prices had eased …although the overall impact "remains to be seen." He admitted that tariff-related inflation could prove short-lived, reflecting a one-time price shift.

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In the Q&A portion of the press conference, Powell suggested that current policy does not seem to be restraining growth. He mentioned there will be a lot of data released before the next FOMC meeting and acknowledged no decision has been made for September. This quickly dispelled today's official statement as a viable clue source.

Powell went on to say that inflation is running a bit above target, even when looking through the tariffs, and added that there are still many uncertainties to consider. He described the labor market as solid but acknowledged apparent downside risks.

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In response to one of many tariff questions, Powell said increased costs have mostly been absorbed by companies and retailers but expects to see consumer prices move higher in the coming months. In a surprisingly out-of-nowhere comment, Powell volunteered that the Fed is actually looking through the tariffs "*by not hiking rates*."

Until this point, the markets had been fairly calm, but the mere mention of a rate hike pushed bond yields higher and sent equities sharply lower. The hawkish comment seemed uncharacteristic of Powell, who seldom missteps. The bottom line is that the Fed is still squarely in wait-and-see mode amid continued uncertainty. Powell's oddly defiant comment is likely in response to unrelenting pressure from President Trump to cut rates immediately.

Please see disclosure starting on page 2.

Market Indications as of 2:48 P.M. Central Time

DOW	Down -268 to 44,365 (HIGH: 45,014)
NASDAQ	Down -21 to 21,078 (HIGH: 21,179)
S&P 500	Down -26 to 6,345 (HIGH: 6,390)
1-Yr T-bill	current yield 4.12%; opening yield 4.06%
2-Yr T-note	current yield 3.94%; opening yield 3.87%
3-Yr T-note	current yield 3.88%; opening yield 3.82%
5-Yr T-note	current yield 3.96%; opening yield 3.90%
10-Yr T-note	current yield 4.37%; opening yield 4.32%
30-Yr T-bond	current yield 4.90%; opening yield 4.86%