

Financial Markets Rally as Powell Signals September Cut

At last year's annual Economic Policy Symposium in Jackson Hole Wyoming, Fed Chair Jay Powell set the stage for reducing the overnight rate target by proclaiming, "*The time has come for policy to adjust.*" It wasn't a surprise, but it solidified the Fed's easing bias weeks before the September 2024 FOMC meeting. This morning in an eagerly anticipated address, Powell announced, "*The baseline outlook and shifting risks may warrant adjusting our policy stance.*" Once again, no surprise, but unambiguously clear in signaling the Fed's intent to resume rate cuts after a nine-month pause.

Powell indicated downside risks to employment were rising, which seems to be the motivating factor in the easing bias, although the Chairman tempered expectations for larger and more aggressive cuts in saying labor market stability will allow the committee to proceed carefully.

Powell described the upside risks to inflation and downside risks to employment as a challenge for the Fed, but suggested a reasonable base case that tariffs will create a one-time shift in prices.

The financial market rally began mere minutes after the text of Powell's speech was released, hyper-focusing on the simple assessment that the economic outlook may warrant policy adjustment. The market reaction seemed dramatic given that the Fed was widely expected to cut long before this morning, and although Powell clearly confirmed that expectation, he also signaled a cautious path forward.

Several other FOMC members, weighing in earlier, sounded even more cautious.

- Boston Fed President and current FOMC voting member Susan Collins said a rate cut in September isn't yet a "done deal," but acknowledged current policy is modestly restrictive and the committee can't wait until uncertainties are resolved before making decisions. She did however toss out a late curve, mentioning that a larger and more persistent tariff impact can't be ruled out.
- Atlanta Fed President Raphael Bostic said he still expects just one rate cut this year. Bostic, who isn't a voting member this year or next, believes current policy is "marginally restrictive."
- Chicago Fed President and current voting member Austan Goolsbee said the September meeting is "live," in other words, *no decisions have been made*. Goolsbee expressed concern about the recent spike in service prices.
- Kansas City Fed President and current voting member Jeffrey Schmid sees *no urgency to cut rates*. Schmid's primary focus was on what he described as recent "eye opening" inflation prints.

The bottom line seems to be that a September cut is a near certainty, but future incoming data will determine the degree and magnitude of future policy.

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Market Indications as of 10:13 A.M. Central Time

DOW	Up 829 to 46,614 (NEW HIGH)
NASDAQ	Up 429 to 21,530 (HIGH: 21,713)
S&P 500	Up 103 to 6,473 (NEW HIGH)
1-Yr T-bill	current yield 3.87%; opening yield 3.94%
2-Yr T-note	current yield 3.68%; opening yield 3.78%
3-Yr T-note	current yield 3.64%; opening yield 3.74%
5-Yr T-note	current yield 3.76%; opening yield 3.85%
10-Yr T-note	current yield 4.25%; opening yield 4.33%
30-Yr T-bond	current yield 4.86%; opening yield 4.92%

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