Oct Fed Minutes Offer Little New Information

Scott McIntyre, CFA
HilltopSecurities Asset Management
Co-Head of Investment Management
Managing Director
512.481.2009
scott.mcintyre@hilltopsecurities.com

Greg Warner, CTP
HilltopSecurities Asset Management
Co-Head of Investment Management
Managing Director
512.481.2012
greg.warner@hilltopsecurities.com

Matt Harris, CFA
HilltopSecurities Asset Management
Senior Portfolio Advisor
Senior Vice President
512.340.1845
matt.harris@hilltopsecurities.com

Most of the critical information contained in the October FOMC minutes was already well known; in particular, the unusual degree of division within the committee. Although the decision to halt balance sheet runoff was widely accepted, the decision to reduce the overnight rate was less unified.

The minutes revealed that "Several participants assessed that a further lowering of the target range for the federal funds rate could well be appropriate in December if the economy evolved about as they expected over the coming intermeeting period," while "Many participants suggested that, under their economic outlooks, it would likely be appropriate to keep the target range unchanged for the rest of the year."

It's important to note that only 12 of these 19 participants cast a vote. As a result, with just 21 days until the December meeting, the words of voting members carry additional weight. All seven Fed Governors vote at every meeting.

On Monday, Fed Governor Chris Waller said: "*A December cut will provide additional insurance against an acceleration in the weakening of the labor market and move policy toward a more neutral setting*." Waller added that he doesn't believe the lack of data should preclude the committee from acting next month. That same day, Fed Governor/ Vice Chair Philip Jefferson said downside risks to employment have increased compared to upside risks to inflation, but that the central bank should move "slowly" when it comes to cutting rates. Newly appointed Fed Governor Steve Miran continues to advocate for multiple cuts.

The September employment report will be released tomorrow morning. But given that the information will be 48 days late, it's debatable as to how much impact the report will have.

Given the difference of opinion and lack of economic data, Chairman Powell was clear at the October meeting when he said a December cut was not "a foregone conclusion." *Future data will always impact future decisions*. The timing of economic releases has been a question since the government shutdown had halted government data collection, but there's been some recent clarity – Just today, the BLS announced there would be no October jobs report. The November jobs report, typically released on the first Friday in December, will be delayed to Dec. 16; notably six days after the FOMC meeting.

The September employment report will be released tomorrow morning. But given that the information will be 48 days late, it's debatable as to how much impact the report will have.

The bottom line is that committee members don't have enough information to make a confident decision … and might not for months.

One month ago, the futures market had fully priced-in a quarter point reduction for December, but as of this afternoon, the bond market is indicating just a 27% probability. Assuming the Fed opts to pause in December, the chances of a January cut nearly triple to 85%.

The bottom line is that committee members don't have enough information to make a confident decision …and might not for months. Multiple rate cuts are still likely, but the timing is unknowable.

Please see disclosure starting on page 2.

Market Indications as of 3:22 P.M. Central Time

DOW	Up 47 to 46,139 (HIGH: 48,255)
NASDAQ	Up 131 to 22,564 (HIGH: 23,958)
S&P 500	Up 25 to 6,642 (HIGH: 6,891)
1-Yr T-bill	current yield 3.68%; opening yield 3.64%
2-Yr T-note	current yield 3.59%; opening yield 3.57%
3-Yr T-note	current yield 3.59%; opening yield 3.57%
5-Yr T-note	current yield 3.71%; opening yield 3.69%
10-Yr T-note	current yield 4.13%; opening yield 4.11%
30-Yr T-bond	current yield 4.75%; opening yield 4.73%