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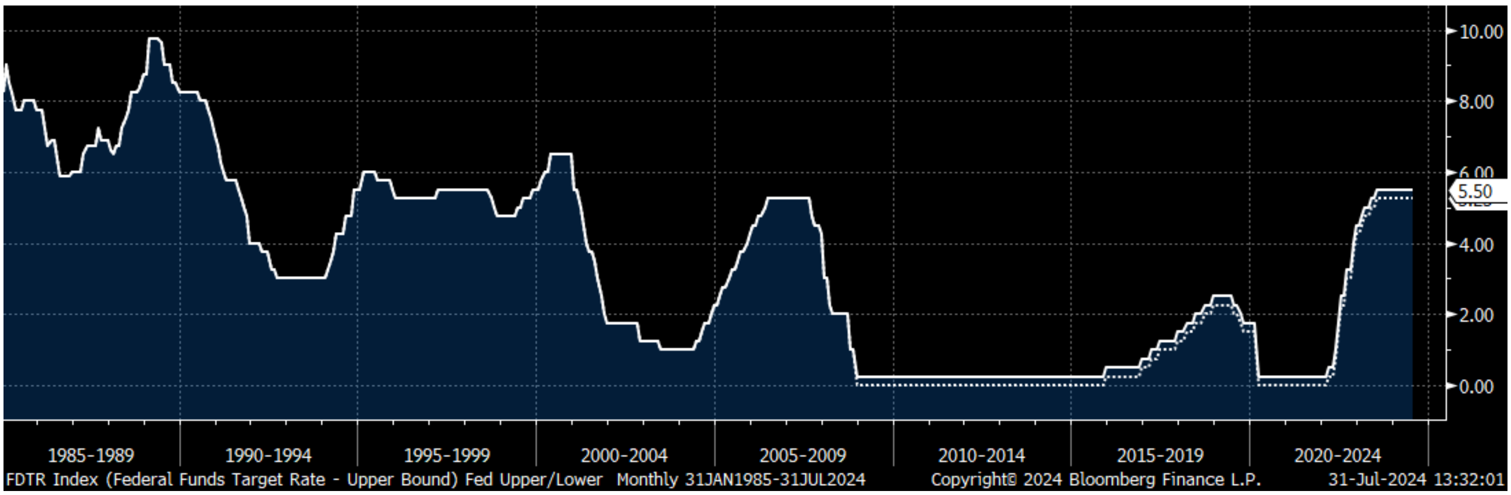
FOMC Rate Decision

Takeaway:

The decision at the conclusion of the fifth FOMC Meeting of 2024 was to leave rates unchanged at 5.25-5.5%. **While this was well telegraphed leading up to today's announcement, the statement highlighted the view that employment and price risks are in better balance.** In the press conference, Powell left the door open for the cutting cycle to begin in September (which is the current expectation in the market) but repeatedly pushed back against the idea that it is already "baked in". There was no update to the SEP (Summary of Economic Projections), that will come in the September meeting on 9/18/2024.

FED Funds Upper (solid) & Lower (dotted) Bound



Inflation & Labor Market:

The **Employment Cost Index** rose by 0.9% in Q2, slowing more than the forecasted 1.0%. This supports a trend of gradually easing inflationary pressures. Recent data indicate the labor market is returning to its pre-pandemic trend, with other measures pointing to cooling wage growth, slower hiring, and rising unemployment. Fed Chair Jerome Powell stated at today's meeting that the job market is no longer an inflationary force. He specifically mentioning that the committee views it as a "2019" market, a year when Core PCE was consistently below the FED's 2% target.

After an unexpected spike in the first quarter, inflation has moved back onto the disinflationary track. **Core CPI** increased by 0.1% from May, marking the slowest pace since 2021. A significant signal for potential Fed rate cuts is the slowdown in housing costs: shelter prices rose by just 0.2%, the smallest gain since August 2021, and rent increased by 0.3%, the lowest in three years. Additionally, the Fed's preferred measure of inflation, **Core PCE**, rose at a tame pace, increasing by 0.2% from May and 2.6% year-over-year. On a three-month annualized basis, it cooled to 2.3%, the lowest since December.

These encouraging signs from the labor market and inflation indicate that the Fed's monetary tightening campaign is steering inflation towards its 2% target, underscoring the markets expectation that the Fed will start lower interest rates at its September meeting.

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