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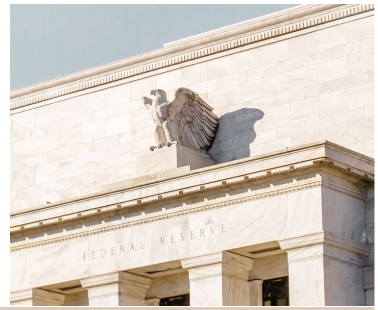

FOMC Meeting: Key Takeaways

June FOMC meeting **June 14, 2023**

Policy announcement

The Federal Open Market Committee (FOMC or the Committee) kept the federal funds rate unchanged at 5.00% – 5.25%. The FOMC stated that "holding the target rate steady at this meeting will allow it to assess additional information and its implications for monetary policy". The Federal Reserve (Fed) continues reducing its holdings of Treasury securities, agency debt, and agency mortgage-backed securities in 2023 in accordance with its statement released in May 2022.

Stated reasons

- Recent indicators suggest that economic activity has continued to expand at a modest pace. Job gains have been robust in recent months and the unemployment rate has remained low. Inflation, however, remains elevated.
- We believe the U.S. banking system is sound and resilient. Continued developments are likely to result in tighter credit conditions for households and businesses and to weigh on economic activity, hiring, and inflation. The extent of these effects is uncertain. The Committee remains highly attentive to inflation risks.

Looking forward

- The FOMC statement validates that the Committee will continue to take into account the cumulative tightening of monetary policy, the lags with which monetary policy may affect economic activity and inflation, and economic and financial developments in its decisions at each meeting.
- However, the bias is to the upside as new federal funds target range projections from the FOMC imply that policymakers expect additional rate hikes this year, with the median terminal rate now peaking around 5.6% compared to the 5.1% expected in March.
- In the past five Fed tightening cycles since 1990, long-term U.S. Treasury yields have peaked before the end of the tightening cycle but did not begin a clear declining trend until the tightening cycle was over. We acknowledge that, although the current Fed tightening cycle may still not be over, we believe long-term rates have already tested their peak for this cycle.

What else?

- While the Fed has signaled its bias for further interest rate increases, the statement does make it clear that the FOMC is prepared to adjust policy as appropriate if risks emerge that impede the attainment of its goals. For now, we continue to project one additional 25-basis-point rate hike before year-end.
- Given our expectation that the federal funds rate will remain elevated through year-end, we continue to position portfolios defensively. We see asymmetric risk to the downside in risk markets. We believe fixed-income investors may want to consider locking in a portion of their fixed-income portfolios at current yield levels, effectively implementing a barbell strategy by investing into the long and short end of the curve.

Upcoming meeting schedule

- July 26 | September 20* | November 1 | December 13*

*Indicates the meeting is associated with a summary of economic projections. In addition, every meeting will be accompanied by a press conference.

Risk considerations

All investing involves risks including the possible loss of principal. Bonds are subject to interest rate, credit/default, liquidity, inflation and other risks. Prices tend to be inversely affected by changes in interest rates.

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