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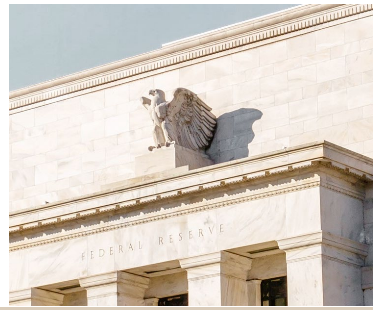

FOMC Meeting: Key Takeaways

December FOMC meeting | **December 13, 2023**

Policy announcement

The Federal Open Market Committee (FOMC or the Committee) kept the federal funds rate unchanged at 5.25% – 5.50% for the third straight meeting. The FOMC stated that it "will continue to assess additional information and its implications for monetary policy". The Federal Reserve (Fed) continues reducing its holdings of U.S. Treasury securities, agency debt, and agency mortgage-backed securities.

Stated reasons

- Recent indicators suggest that growth of economic activity has slowed from its strong pace in the third quarter. Job gains have moderated since earlier in the year but remain strong, and the unemployment rate has remained low. Inflation has eased over the past year but remains elevated.
- The FOMC believes the U.S. banking system is sound and resilient. Tighter credit and financial conditions for households and businesses are likely 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 confirms 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 at each meeting.
- The Fed continues to evaluate "the extent of any additional policy firming that may be appropriate to return to 2% inflation over time." We believe the Fed has softened its stance toward further hikes and most likely has reached its terminal policy rate for this cycle. Most of the attention will now focus on the timing and the extent of rate cuts during 2024. The latest federal funds target range projections from the FOMC imply that policymakers expect three rate cuts next year, finishing 2024 at 4.6%; this is one additional cut from their projections in September.

What else?

- We think the market is still priced for a too-optimistic outcome regarding future Fed rate cuts. As the dis-inflation base effect wears off, we think it will prove difficult for inflation to move quickly toward the Fed's 2.0% inflation target.
- The FOMC raised its gross domestic product growth forecast for 2023 while decreasing slightly its expectation for 2024 (1.4%). This, however, still bolsters its view of being able to accomplish a soft landing.
- Given our expectation of only two rate cuts in 2024 following an economic slowdown in the first half of 2024, 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 implementing a barbell strategy by investing into the long and short end of the curve.

Upcoming meeting schedule

- January 31 | March 20* | May 1 | June 12*

*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. Investments in fixed-income securities are subject to interest rate, credit/default, liquidity, inflation and other risks. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline in the bond's price. Credit risk is the risk that an issuer will default on payments of interest and principal. This risk is higher when investing in high yield bonds, also known as junk bonds, which have lower ratings and are subject to greater volatility. If sold prior to maturity, fixed income securities are subject to market risk. All fixed income investments may be worth less than their original cost upon redemption or maturity.

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