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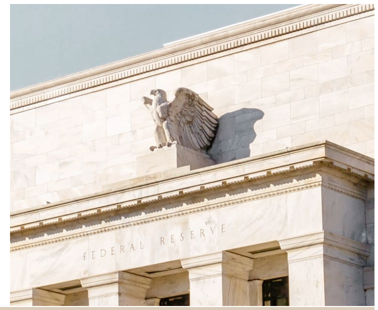
Investment Institute



FOMC Meeting: Key Takeaways

January FOMC meeting	**January 31, 2024**

Policy announcement

The Federal Open Market Committee (FOMC or the Committee) kept the federal funds rate unchanged at 5.25% – 5.50% for the fourth straight meeting. The FOMC stated that "it will not be appropriate to reduce the federal funds target range until inflation moves sustainably toward 2%". 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 economic activity has been expanding at a solid pace. Job gains have moderated since early 2023 but remain strong, and the unemployment rate has remained low. Inflation has eased over the past year but remains elevated.
- The FOMC judges that the risks to achieving its employment and inflation goals are moving into better balance. The economic outlook is uncertain, and the Committee remains highly attentive to inflation risks.

Looking forward

- In considering any adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks.
- Also, the FOMC does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2%. The Committee will continue to take into account a wide range of information, including readings on labor market conditions, inflation pressures, inflation expectations, and financial and international developments.
- We believe the Fed has reached its terminal policy rate for this cycle and that additional rate hikes are off the table in the near term. 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%.

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.
- Given our expectation of only three rate cuts in 2024 following an economic slowdown in the first half of 2024, we continue to position portfolios defensively. We believe fixed-income investors may benefit by being most favorable short-term fixed income and neutral intermediate and long-term.

Upcoming meeting schedule

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

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

Risk considerations

Forecasts are not guaranteed and based on certain assumptions and on views of market and economic conditions which are subject to change.

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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