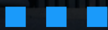
FOMC meeting November 6-7

November 2, 2024

Strategy realized



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Meeting minutes — calm before the storm: gradualism toward neutrality

The minutes of the November Federal Open Market Committee (FOMC) meeting confirmed that "all participants viewed it as appropriate" to lower the federal funds rate by 25 basis points (bps) to 4.50%-4.75%. They generally believed that policy recalibration would help maintain the strength in the economy and the labor market while continuing to enable further progress on inflation.

We agree.

But while Fed Chair Jerome Powell noted during his post-meeting press conference that the Fed doesn't guess, doesn't speculate and doesn't assume specific policy developments, we do. We believe that stronger private-sector confidence on the prospects of pro-business policies and deregulation is likely to support spending and investment in the near term, but policy uncertainty and increased protectionism will likely act as offsetting constraints. Importantly, from the Fed's perspective, deregulation, immigration constraints, tariffs and tax cuts are likely to be inflationary in 2025-26.

Looking ahead, Fed policymakers will likely slow the recalibration process as they carefully feel their way to a neutral policy stance. They stressed that "uncertainties concerning the level of the neutral rate of interest complicated the assessment of the degree of restrictiveness of monetary policy and, in their view, made it appropriate to reduce policy restraint gradually." As such, if inflation continues to move toward the 2% target and the economy remains near maximum employment, it would likely be appropriate to "move gradually" toward a more neutral stance of policy over time.

In an encouraging development, many participants highlighted the "importance of focusing on underlying economic trends and the evolution of the outlook" given the volatile economic data (but, disappointingly, they still emphasized that monetary policy would be data-dependent).

In discussing risk management considerations, "almost all" participants agreed that risks to achieving the Committee's employment and inflation goals remained roughly in balance. Some policymakers noted, however, that downside risks to economic activity or the labor market had diminished.

Policymakers continued to stress the need to balance the risk of easing too quickly with the risk of easing too slowly with "some" noting that the Fed could pause its easing of the policy rate and hold it at a restrictive level if inflation remained elevated, and "some" remarking that policy easing could be accelerated if the labor market turned down or economic activity faltered.

Given robust but gently decelerating economic activity, strong productivity growth and softening inflation, we continue to expect a 25bps rate cut to 4.25%-4.50% in December. Thereafter, we believe the Fed may decide to slow the recalibration process as policymakers carefully feel their way to a neutral policy stance. Considering the election results, we now assume a rate cut at every other meeting in 2025, for a total of 100bps of easing, down from 150bps previously. Importantly, risks are tilted toward less monetary policy easing in 2025-26.

Meeting recap — gradualism and risk management in a brave new world

The FOMC voted unanimously to cut the federal funds rate by 25bps to 4.50%–4.75%. Given robust but gently decelerating economic activity, strong productivity growth and softening inflation, we continue to expect a 25bps cut to 4.25%–4.50% in December. Thereafter, we believe the Fed may decide to slow the recalibration process as policymakers more carefully feel their way to a neutral policy stance. Considering the US election results, we now assume a rate cut at every other meeting in 2025, for a total of 100bps of easing, down from 150bps previously.

Policy statement alterations were initially perceived as having a hawkish tilt but instead were aimed at providing the Fed with greater policy optionality. Fed Chair Jerome Powell stressed there was no policy signal in the removal of the statement, saying the FOMC "has gained greater confidence that inflation is moving sustainably" to 2%, and that "further" progress toward 2% and balanced risks had motived the rate cut. Instead, these were viewed as tests for the first rate cut, not the continuation of the easing cycle.

There was no update to the Summary of Economic Projections (SEP) or the dot plot of median rate expectations, but Powell did provide some hints as to how he perceived the outlook. He noted that in aggregate economic activity had been stronger than expected, following National Income and Product Account revisions to GDP and income; that downside risks to growth were lower; and that inflation had come in a little stronger than expected.

As such, he noted that we are still "on a path toward a more neutral stance," adding "that has not changed at all since September." This would seem to confirm that absent any major economic surprise over the next six weeks, the Fed will proceed with a 25bps cut in December.

The five key takeaways from the press conference were:

1. "No," Powell has no intention to resign or leave the Fed if president-elect Trump asks him to do so. Powell stressed that it's "not permitted under the law" for the president to fire or demote the Fed Chair or any governor at will. As a reminder, Powell's four-year term as Fed Chair expires in May 2026, but his 14-year term as governor ends in 2028.
2. Powell largely deflected questions about the election results and hypotheticals around the outlook for fiscal, trade and regulatory policy, saying, "We don't guess, we don't speculate, and we don't assume." He did, however, acknowledge that policies implemented by the president or Congress could affect the Fed's pursuit of its dual mandate and require it to react.

3. Powell reiterated that with an appropriate recalibration of monetary policy, the Fed believes it can maintain the strength in the labor market even as the still-restrictive policy stance enables further progress toward 2% inflation.
4. Powell appears to be increasingly believing in the durability of a pro-cyclical acceleration in productivity, noting that "we're five years into a nice set of productivity readings, which are sustained and very healthy." As we have stressed, even though wage growth remains higher than pre-pandemic, it's no longer inflationary given current productivity readings.
5. When asked about the run up in long-term yields — the 10-year Treasury yields are up 70bps since the Fed's 50bps cut in mid-September — Powell noted that the rise was not principally due to higher inflation expectations but rather "a sense of stronger growth and perhaps less in the way of downside risks." He argued that the Fed would lean against higher yield only if it led to a "persistent" tightening of financial conditions.

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