

Making Sense

January 2024 Federal Open Market Committee Meeting

No Rate Change, But Fed Sets Tone for Rate Cuts in 2024

In Brief:

What just happened?

The Fed held the overnight rate at 5.25%-5.50%.

Why did the Fed hold?

Inflation is still above the Fed’s preferred target, but past hikes take time to soak into the economy.

What is the impact?

Timing of the initial rate cut may not be until mid-year.

What to watch:

The Fed’s next rate decision is March 20th. Ahead of that decision, the Fed will keep a close eye on inflation and wage data.

What now?

Review your financial plan.
Talk with your financial partner.

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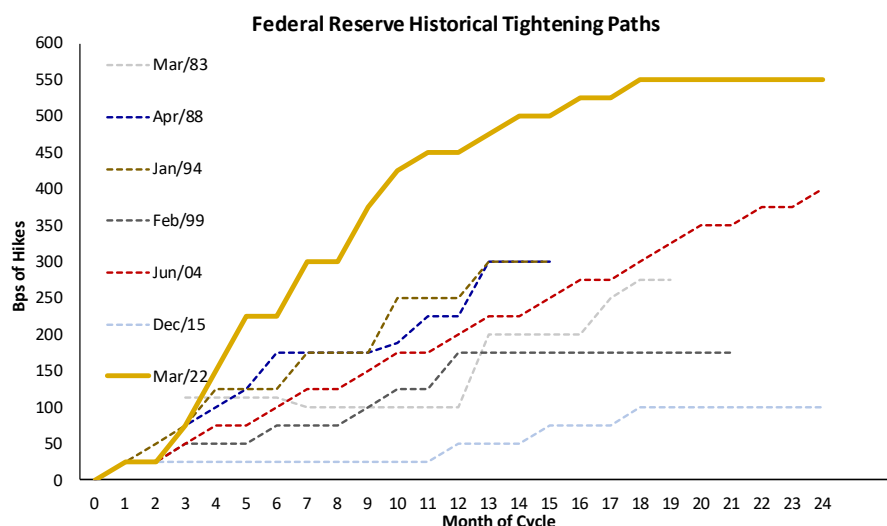
The Federal Reserve held the overnight rate steady today at a range of 5.25% to 5.50%. This is the fourth FOMC meeting with no rate change since the Fed’s final rate hike last July. The Fed took what many investors considered as a dovish tone in December, feeding hopes for significant rate cuts in 2024. Prior to today’s meeting, Fed officials have worked to push back against that narrative.

The FOMC stated, “The Committee 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 percent.”ⁱ During today’s press conference, Chair Powell made it clear that the FOMC’s base case is to not cut the overnight rate at the March meeting, although the Fed will remain data dependent. Prior to today, many analysts speculated that the Fed would begin cutting rates at the March FOMC meeting—we have been skeptical. **After today, federal funds futures are pricing roughly a 36% chance the Fed will cut the overnight rate in March—this is lower than the 40% probability one day prior and well below the 73% chance one month ago.**

Recent data, including consumer inflation and employment reports, have been generally positive. Core inflation (which excludes food and energy) remains well above the Fed’s 2% target, and wage increases have recently outpaced the rate of inflation. But, by and large, the labor market is still adding jobs, the US consumer is still spending, and inflation is moving in the right direction.

We continue to believe the Fed’s hurdle to cut the federal funds rate in March is quite high, but a good amount of fresh inflation and employment data will be released before March 20th. For the entirety of 2024, we believe the number of cuts will likely be closer to three or four, rather than the six cuts the futures market is currently pricing.

Figure 1: Federal Funds Rate



Source: Strategas Research, Bloomberg

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