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Five Key Takeaways from the June FOMC Meeting

A brief outline of the policy and investment implications of the June 11-12 meeting of the U.S. Federal Reserve's policy-setting arm.

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At its June 2024 meeting, the Federal Open Market Committee (FOMC), the policy-setting arm of the U.S. Federal Reserve (Fed), left interest rates unchanged and maintained the pace of its balance sheet runoff. In looking at the FOMC's post-meeting statement and Summary Economic Projections (SEP) issued on June 12 and Fed Chair Jerome Powell's subsequent press conference, we have the following observations:

1. The SEP showed that FOMC members expect the fed funds rate to fall to 5.1% at the end of this year and to 4.1% at year-end 2025. That is up from 4.6% and 3.9%, respectively. Higher rate projections are a consequence of higher inflation projections: The SEP had core inflation (which excludes food and energy prices) running at 2.8% at the end of 2024 and 2.3% at the end of 2025, versus 2.6% and 2.2% previously.

2. In the press conference, Chair Powell continued to avoid mentioning anything that would suggest that rates might need to rise. Instead, he stated that if inflation says too high, the FOMC would maintain the current rate level indefinitely.

3. The estimate of the long-run neutral rate—also known as r-star—moved up to 2.8% from 2.6%, but Powell downplayed the significance of this for policy decisions. He reasserted that current monetary policy was clearly restrictive, but that it was impossible to say how restrictive with any precision.

4. Powell also stated that there was a national housing shortage and that rents could take "years" to slow down to a pace similar to what they were rising at before the pandemic. He also noted that import prices are rising more rapidly, and that wages are still climbing too quickly to be compatible with 2% inflation in the medium term.

5. The Fed chair acknowledged that data from the U.S. consumer price index report for May, released earlier on June 12, was encouraging, but that more data was needed before the Fed could conclude that 2% inflation in the medium term was achievable. He did not specify how many positive inflation readings in a row were needed before rate cuts could begin, stressing that the totality of the data would dictate the timing.

A Final Word

The June FOMC meeting, along with the May CPI report, were viewed by the markets as cautiously good news for risk assets, as evidenced by the positive response in equity and fixed-income markets on June 12. However, there are a number of structural factors, some of which were mentioned by Powell in the press conference, that may make a return to 2% inflation difficult. As we have previously noted, the strength of demand for goods and services in the United States, driven by a full-employment economy, is helping push prices higher. Deficit spending and a significant shortage in the supply of single-family housing also contribute to the persistence of higher-than-target inflation.

How might investors respond to these conditions? In fixed income, one approach we favor is to diversify across duration exposures, including short-term bonds and credit-oriented instruments to balance the rate risk inherent in longer-term bonds. On the equity side, we think quality stocks, along with shares of rapidly growing, innovative companies, are also well positioned for the current environment.

About the Author

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Giulio Martini is responsible for directing the portfolio management, research, and trading activities for the firm's multi asset class strategies. Mr. Martini is also responsible for overseeing the currency team.

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The value of investments in equity securities will fluctuate in response to general economic conditions and to changes in the prospects of particular companies and/or sectors in the economy. While growth stocks are subject to the daily ups and downs of the stock market, their long-term potential as well as their volatility can be substantial. Value investing involves the risk that the market may not recognize that securities are undervalued, and they may not appreciate as anticipated. Smaller companies tend to be more volatile and less liquid than larger companies. Small cap companies may also have more limited product lines, markets, or financial resources and typically experience a higher risk of failure than large cap companies.

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Glossary & Index Definitions

Carry is the difference between the yield on a longer-maturity bond and the cost of borrowing.

Duration is a measure of the sensitivity of the price (the value of principal) of a fixed income investment to a change in interest rates.

The **Federal Reserve (Fed)** is the central bank of the United States. *The **Federal Open Market Committee*** (FOMC) is the branch of the Fed that determines the direction of monetary policy in the United States.

The federal funds rate is the interest rate at which depository institutions lend reserve balances to other depository institutions overnight on an uncollateralized basis. **Fed funds futures** are financial futures contracts based on the federal funds rate and traded on the Chicago Mercantile Exchange. These futures are considered a direct reflection of collective marketplace insight regarding the future course of the Federal Reserve's monetary policy.

The **neutral rate of interest**, also known as ***r-star***, is the real short-term *interest rate* expected to prevail when an economy is at full strength and inflation is stable.

Spread is the percentage difference in current yields of various classes of fixed-income securities versus Treasury bonds or another benchmark bond measure. A bond spread is often expressed as a difference in percentage points or basis points (which equal one-one hundredth of a percentage point). The **option-adjusted spread (*OAS*)** is the measurement of the spread of a fixed-income security rate and the risk-free rate of return, which is adjusted to take into account an embedded option. Typically, an analyst uses the Treasury securities yield for the risk-free rate.

The **U.S. Consumer Price Index (CPI)** is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

The **U.S. Personal Consumption Expenditure price index (PCE),** also referred to as the PCE deflator, is a United States-wide indicator of the average increase in prices for all domestic personal consumption. It is benchmarked to a base of 2009 = 100. Using a variety of data including U.S. Consumer Price Index and Producer Price Index prices, it is derived from personal consumption expenditures, the largest component of U.S. gross domestic product in the U.S. Bureau of Economic Analysis' National Income and Product Accounts report.

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