Beacon Trust
INNOVATING WEALTH STRATEGY

FOMC Rate Cut July 31, 2019

The Federal Reserve Open Market Committee voted to reduce the Federal Funds rate for the first time since December 2008 in what Federal Reserve Chair Jerome Powell categorized as a “mid-cycle adjustment to policy”. Interest rates were cut by 0.25 percentage-point and the range is now 2.00% to 2.25% on Fed Funds. The FOMC said in a statement that “in light of the implications of global developments for the economic outlook as well as muted inflation pressures, the committee decided to lower rates”. The well telegraphed and widely anticipated move comes as economic data, including business investment and manufacturing, was somewhat weak in the second quarter but now the outlook for the U.S. economy “remains favorable”.

The FOMC took this opportunity to lock in the so-called “insurance cut” in order to continue the longest economic expansion on record by reducing borrowing costs on everything from mortgages to auto loans and credit cards in hopes of stimulating broader based economic activity in the U.S. In addition to cutting rates, the Fed also decided to end the runoff of their $3.8 trillion asset portfolio this week, two months earlier than planned.

The market reaction was swift as it was clear that the equity market was anticipating language around a sustained rate cut cycle and that did not materialize. Stocks sold off, the dollar rallied to a two-year high and the yield curve flattened (short-end rates increased while long-end rates decreased) as the markets tried to make sense of this most recent FOMC decision.

The future path of interest rates is unclear at this time as Powell, in the press conference after the rate decision, somewhat surprisingly stated that this is not the start of a lengthy rate cutting cycle. So, is this a situation of one-and-done for interest rate cuts or could we eventually go back to a cycle of rate hikes if the economy improves? The market is still pricing in just slightly more than a 25 basis point cut at this time but this is much less easing than had been expected before the meeting. At Beacon Trust, we will wait for more data to become available before pinpointing any one direction as the path of future interest rates is hazy at this time.

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