JSB Capital Management, LLC

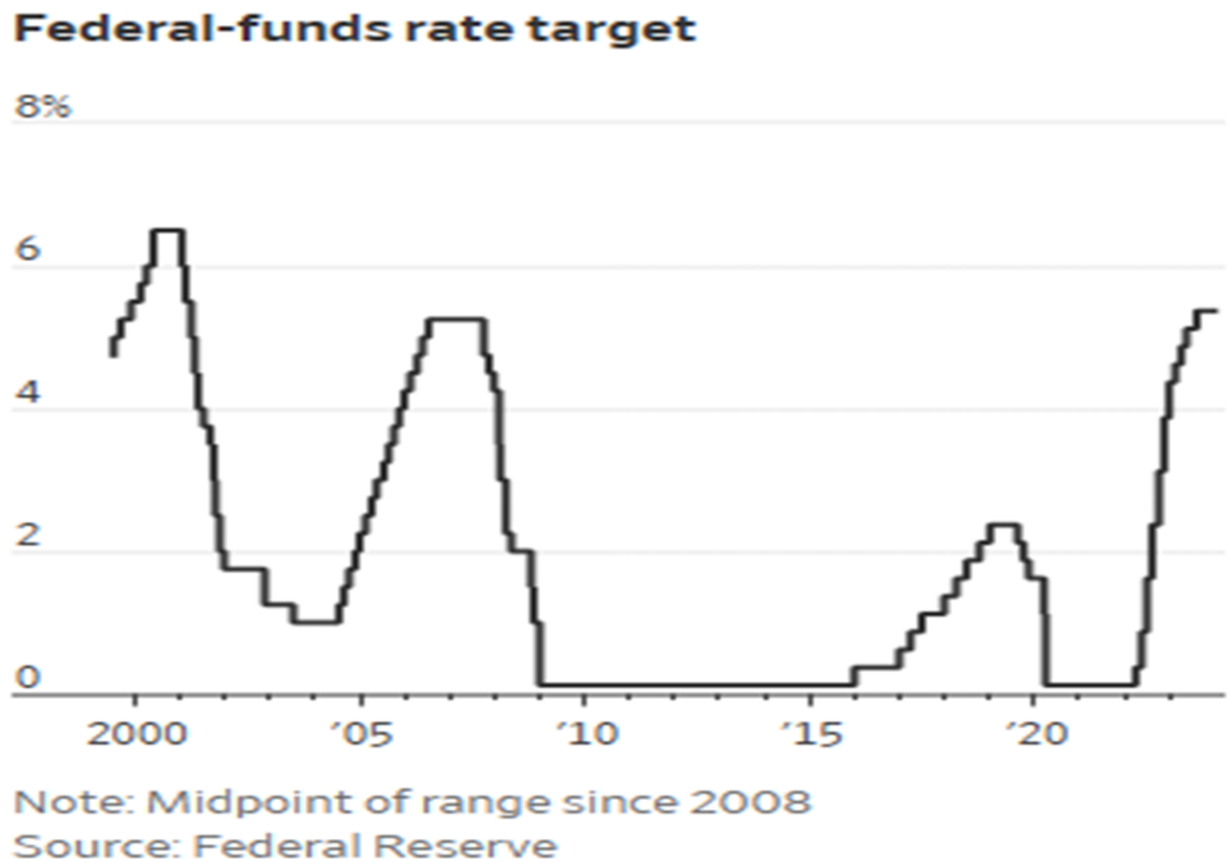
Pro-active Wealth Management

December 13, 2023

Today marked the ninth and final meeting of 2023 for the Federal Reserve Bank's Open Market Committee (FOMC). As expected, the Committee decided unanimously to keep interest rate levels at their current 5.25% to 5.5% range after pausing two meetings ago at these levels.

The Federal Reserve Bank, Washington, D.C.

The FOMC began raising rates in March 2022 and has raised the Federal Funds Interest Rate 11 times since then. The Committee began raising rates from basically zero in March 2022 and lifted them most recently in July to the current range between 5.25% and 5.5% which is a 22-year high. (See chart below)



<u>Is This the End of Interest Rate Hikes for The Cycle?</u>

FOMC Officials have been reluctant to publicly declare “mission accomplished” and were careful not to rule out higher rates in the policy statement released immediately following their rate announcement, which was little changed from recent versions that have said “tighter policy remains possible”.

For the last several months Fed Officials have been attempting to balance two risks:

> One is that they move too slowly to ease policy and the economy finally crumples under the weight of higher interest rates, causing millions of people to lose their jobs.
>
> The other is that they ease prematurely, and inflation settles above 3%—higher than their publicly stated 2% goal.

The U.S. economic outlook has brightened in recent months because inflation and wage growth are slowing. That could give the Fed more room to lower rates rapidly if the economy weakens more than officials expect, and it could open the door to cuts even if the expansion doesn’t stall.

<u>What is in Store For 2024?</u>

In their latest projections, FOMC officials expected core prices, which exclude volatile food and energy items, to rise 3.2% this quarter compared to a year ago. That’s down from a projection of 3.7% in September.

Next year they see core inflation of 2.4% and Federal Reserve officials are apparently penciling in roughly **three** quarter-point interest-rate cuts. That's half a percentage point lower than in their quarterly forecast from September.

Federal Reserve Bank Chairman, Jerome Powell

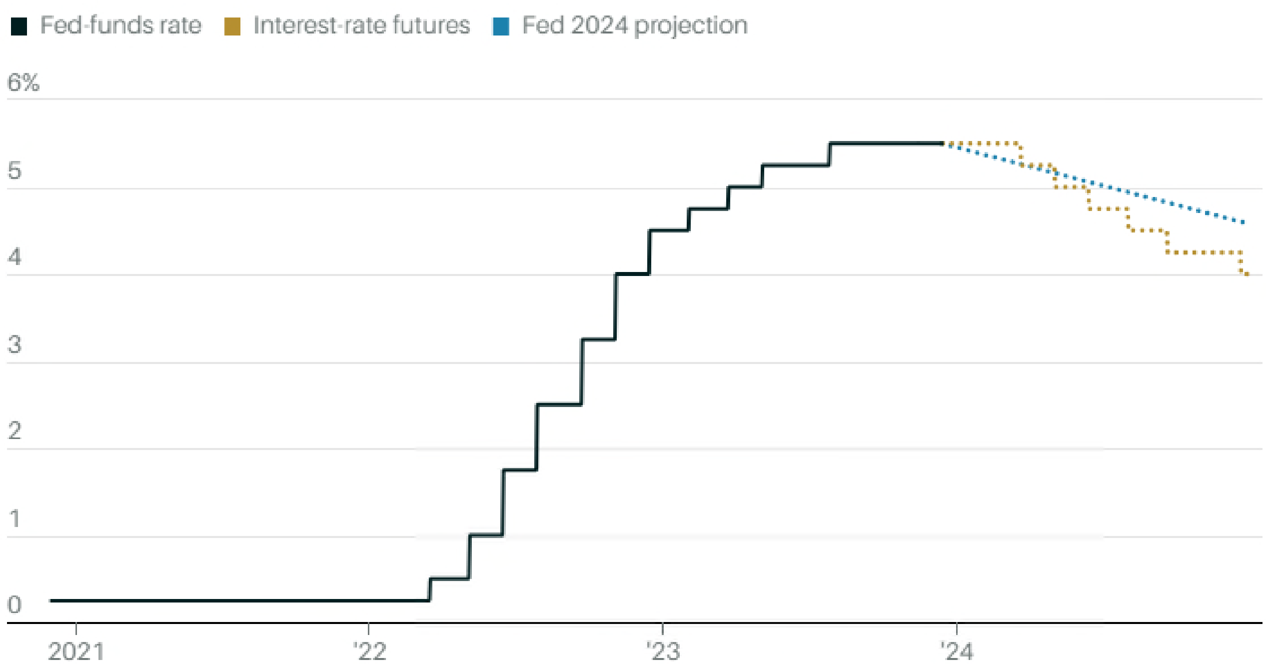
And though Federal Reserve Chairman Jerome Powell was careful not to rule out higher rates if necessary, he sounded very dovish in his press conference, noting “inflation has eased from its highs, and this has come without a significant increase in unemployment. That’s very good news.”

“I welcome the progress,” Powell said. “We just need to see more.”

Powell said it was too soon to say whether the last stretch of inflation reduction would prove harder than the ground covered so far. “We kind of assume that it will get harder from here, but so far, it hasn’t,” he said.

As a result of Fed Officials projecting the following:

1. Inflation (core PCE, their preferred measure) will fall to **2.4%** next year. That's down from the previous forecast of 2.6%.
2. Growth (real Gross Domestic Product) at **1.4%** annualized in 2024, revised down slightly from 1.5%.
3. Federal Funds rate at **4.6%,** down from the previously projected 5.1% and roughly 0.75 point lower than the current level. This projection is the basis for the assumption of 3 quarter-point interest rate cuts in 2024.

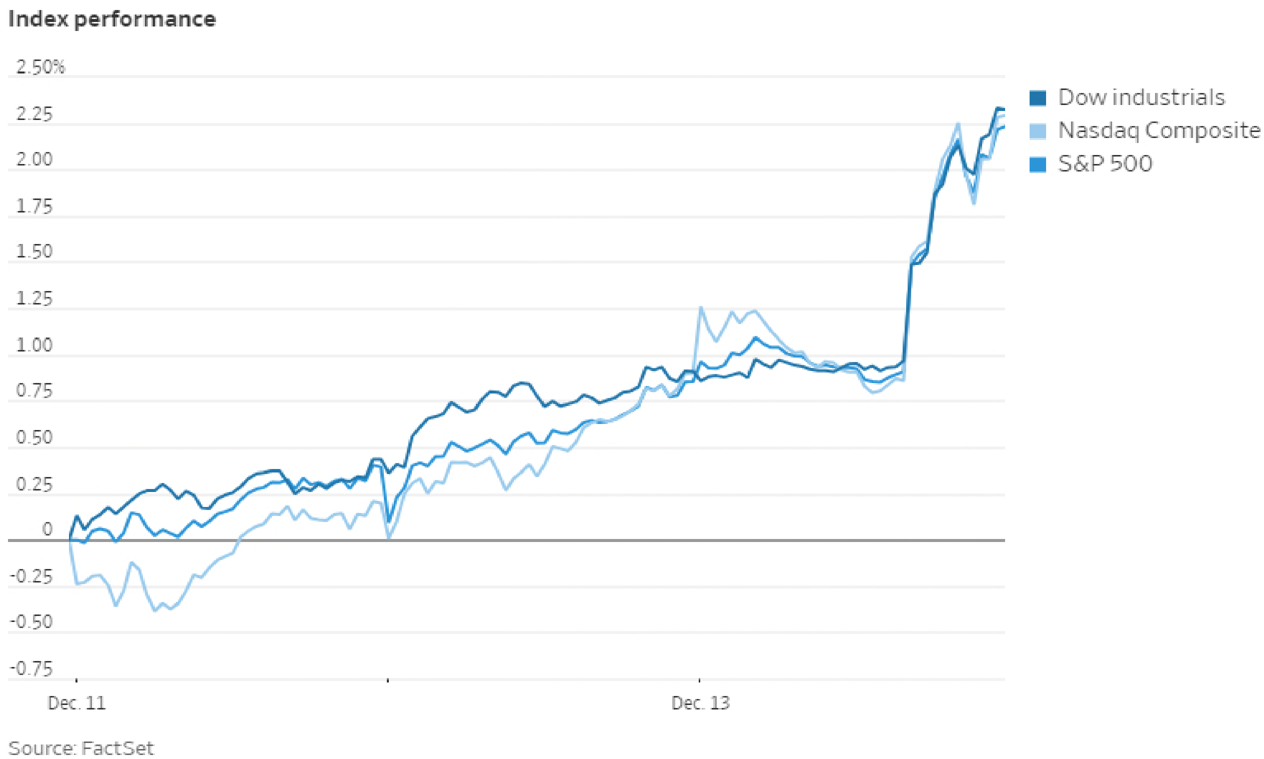


Notes: Fed projection uses midpoint of target range. Interest rates and futures are upper limit.
Sources: Federal Reserve, CME FedWatch Tool

Not surprisingly, U.S. Treasury_Bond **yields** are plummeting in response to the potential of not only the end of the Fed's interest rate hiking process, but also the potential of a series of rate cuts in 2024. Bond prices rise as their associated yields fall and this dramatic relationship is depicted below in today's market action (for the U.S. Treasury 10-year Note):

The Stock Markets Welcome the Prospect of Rate Cuts in 2024

All the major market indexes rallied sharply following the Fed's policy statement announcement. As the chart of today's action shows (below), the stock markets welcomed the idea of rate cuts. The financial sector stocks were particularly energized with the prospect of their balance sheet assets, largely bonds and interest-bearing loans, being marked up (increase in market value) and the sector was up 7-8% as a result.



We will be publishing an “Outlook for 2024” shortly and that document will have a much more specific game plan for the next 12 months and will include specific portfolio directed action we anticipate will benefit from the current interest rate and economic environment.