**JSB Capital Management, LLC**

**Pro-active Wealth Management**

July 29, 2015

Late this morning, to no one’s surprise, the Federal Reserve’s Open Market Committee (FOMC) concluded their two day meeting and announced that its key interest rate will remain near zero for now. The real interest in this announcement was whether anyone could divine from the wording of the press release some indication of whether the next meeting in September will conclude with the first rise in interest rates in about nine years.

In her last press conference Fed Chairwoman Janet Yellen said she expected Fed officials to agree to raise rates later this year. While today’s meeting didn’t send any overt message about the timing of the interest rate move, there are three scheduled policy meetings left in this year. The next one is September 16-17 and there’s about a 50-50 chance right now that the Fed will raise rates ¼ of a point at the end of that meeting.

While Chair Yellen and her other Governors have insisted that their rate decision is “data driven,” meaning they will use the employment data and inflation rate indices as their primary indicators, global turmoil and the weak economic data of late could influence the timing of the rate hike. There is no doubt that slowing growth in China and other emerging markets is providing downward pressure on the price of commodities and manufactured goods which are imported into the U.S. In their press release the central bank stated a noticeable concern about low inflation, which may be creating caution among officials and could convince them to delay the first interest-rate increase in nearly a decade.

In addition, the Fed must continue to focus on its “dual mandate” of maximum employment and an annual inflation goal of around 2%. The FOMC has stated that it will begin to raise the Federal Funds rate when it has seen “improvement in the job market and becomes reasonably confident” inflation is on course to return to 2%.

Even though the jobless rate has declined from over 10% in 2009 to a reported 5.3% in June, the Fed’s preferred measures of inflation (like the CPE) have remained below 2% for more than three straight years. While progress on the jobs front increases the chance that officials may be inclined to act, the persistent failure to reach the inflation goal is also likely to make them hesitate. It’s kind of a stalemate right now.

Fed officials have described these developments as transitory. In their June policy statement, they noted that energy prices had stabilized, a sign they believed this source of downward inflation pressure had diminished. In Wednesday’s statement they struck the reference to stable energy prices, noting that a renewed drop in oil prices had materialized in recent weeks.

By the way, the Fed voted 10-0 on the inaction on rates, the fifth straight meeting with a unanimous vote. With interest rates held at zero at today’s meeting, the focus shifts to the September meeting which has a press conference after the meeting. The markets have been anticipating the end of the zero interest rate policy by the end of 2015. It may by when it finally comes, it will have already been factored into stock and bond prices.