JSB Capital Management, LLC

Pro-active Wealth Management

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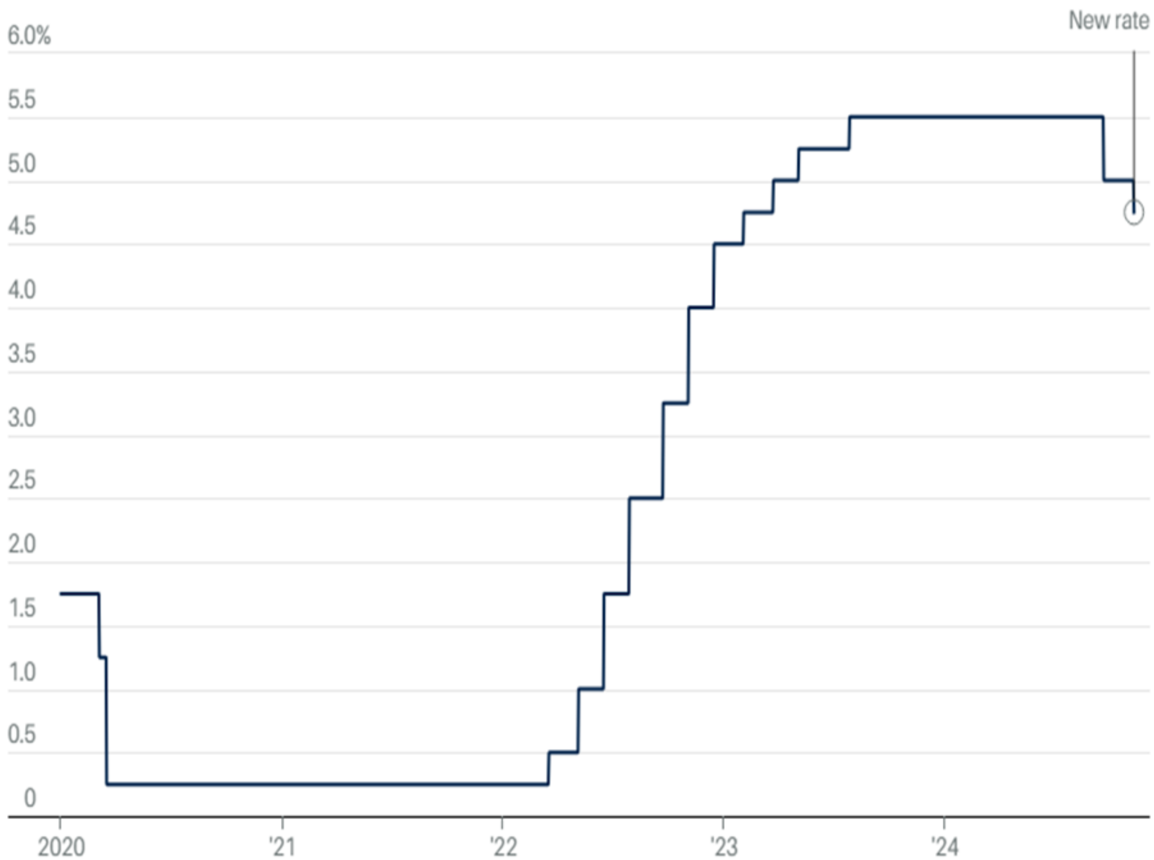
As widely expected, the Federal Open Market Committee (FOMC) reduced the Federal Funds Rate by 0.25% today. The minimal rate reduction is in sync with the Fed's policy of bringing rates down as inflation slows: Last month, the central bank cut rates by a somewhat surprising half-point, its first reduction in four years.

Federal Reserve Bank Chairman Mr. Jerome Powell

The Federal Open Market Committee's (FOMC) decision to lower the federal funds rate by 0.25 percentage points, bringing the target range to 4.5% to 4.75%, marks a significant shift in monetary policy. This move reflects the Fed's ongoing efforts to maintain economic growth while addressing inflation concerns.



Note: Upper limit of the Fed-funds rate target range.
Source: Federal Reserve

The significance of this decision lies in its potential to stimulate economic activity and ease financial conditions. By lowering interest rates, the Fed aims to encourage borrowing and spending, which can boost economic growth. This is particularly crucial given the current economic landscape, where inflation has been moving closer to the Fed's 2% target but remains "somewhat elevated”.

Chairman Powell’s Press Conference

This cautious approach underscores the complex balancing act the Fed must perform in managing monetary policy. Their dual mandate to keep inflation and employment stable requires the Fed to balance the interest rate needed to keep inflation in check while also allowing enough growth to keep the economy strong. The Fed's baseline expectation, as outlined by Powell, is for interest rates to "move gradually down toward a neutral rate," while the economy continues to grow at a healthy clip and the labor market remains strong. However, Powell was quick to add the caveat "short of any exogenous event," acknowledging the potential for unforeseen circumstances to alter the economic landscape.

When questioned about the possibility of rate hikes in the coming year, Powell maintained a measured stance: "I wouldn't rule anything out that far away, but that's certainly not our plan." This statement reflects the Fed's data-dependent approach and its willingness to adjust policy as economic conditions evolve.

The impact of this rate cut is expected to gradually lower borrowing costs for consumers and businesses, potentially stimulating investment and consumer spending. However, it's worth noting that mortgage rates have actually increased since the September cut due to other market factors, highlighting the complex interplay between Fed policy and broader market dynamics.

The Outlook for Future Rate Cuts

Looking ahead to the December FOMC meeting, the likelihood of another similar cut remains uncertain. While some economists anticipate the possibility of another rate reduction, Powell's comments suggest a more cautious approach. The Fed will likely continue to closely monitor economic indicators, particularly inflation and employment data, to inform its decision-making process.

The potential impacts of today's cut and any future reductions are multifaceted. On one hand, lower interest rates could provide a boost to the housing market, encourage business investment, and support consumer spending. On the other hand, persistently low rates might raise concerns about financial stability and limit the Fed's ability to respond to future economic downturns.

The Fed is reputedly politically neutral and the Chairman is appointed for a four year term. Powell was originally appointed by President Trump and then reappointed by President Biden. His term expires in 2026, so we should expect a steady hand at the Federal Reserve well into the next presidential administration.

The markets have reacted positively to both the election outcome on Tuesday and today’s rate cut. We expect the strength in growth-oriented investments to continue for the foreseeable future and that is reflected in the composition of the portfolios currently.

Julia Bussie, CMT
President
JSB Capital Management, LLC
1442 Camino Del Mar, Suite 208
Del Mar, CA 92014
858-436-2400
www.jsbcap.com