October 30, 2019

As expected, the Fed lowered the Fed Funds rate by 25 basis points.
But what is in store for the December meeting?

The Federal Reserve lowered the Federal Funds rate range today by 25 basis points (bps) to 1.50% - 1.75%, a move that was widely expected and fully priced into the market. There continues to be a division within the voting members, with Esther George and Eric Rosengren again preferring to keep rates steady. James Bullard returned to voting with the consensus for the 25 bps cut. There were no updated economic forecasts or dot plot projections from this meeting to glean additional information on future rate projections.

U.S. Treasury Yields

Tenor	10/30/2019	12/31/2018	Change
1-Year	1.58	2.60	-1.02
2-Year	1.66	2.50	-0.84
3-Year	1.66	2.47	-0.81
5-Year	1.66	2.51	-0.85
7-Year	1.73	2.59	-0.86
10-Year	1.81	2.68	-0.87
30-Year	2.28	3.02	-0.74

Source: Bloomberg

Language Changes and Themes

- Business fixed investment and exports “remain weak”
- Removed the “act as appropriate to sustain the expansion”
- Replaced with a promise to monitor data as the Fed “assesses the appropriate path of the target range for the federal funds rate”
- Remainder of the release was virtually unchanged

Conclusion/Next Move

Data points on the U.S. economy seem to be holding up. The consumer remains healthy but manufacturing, the sector most impacted by trade, continues to be pressured. Many of the same issues (trade disputes, Brexit, negative yields globally, geopolitical conflicts) cloud the outlook for inflation and economic growth, but the Fed “will continue to monitor the implications for incoming information for the economic outlook as it assesses the appropriate path.” The Fed would like to pause and allow the three rate cuts, due to the lag effect, to impact the economy. However, the market will be attuned to several key releases scheduled this week. Earlier today, Q3 GDP mildly surprised to the upside at 1.9% vs. consensus of 1.6%. October employment and ISM manufacturing numbers are due out Friday. If the economy continues to stabilize, the Fed will keep rates unchanged for December (LIM’s base case). However, if the business and/or service economies shows signs of faltering, then an additional rate cut will be strongly considered at the December meeting. LIM’s duration positioning, while still shorter than the benchmark, has moved in a more neutral direction.

The Fed will continue to purchase Treasury bills to help boost bank reserves and increase money supply. As announced on October 11, these purchases are aimed at addressing the short-term funding volatility in the overnight markets.

As always, please reach out to us with any questions or comments.

Disclosure

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Longfellow Investment Management Co., LLC

20 Winthrop Square, Boston, MA 02110-1229 ● 617 695 3504