Trend Macrolytics, LLC
Donald Luskin, Chief Investment Officer
Thomas Demas, Managing Director
Michael Warren, Energy Strategist

TRENDMACRO LIVE!

On the September FOMC

Wednesday, September 18, 2024

Donald Luskin

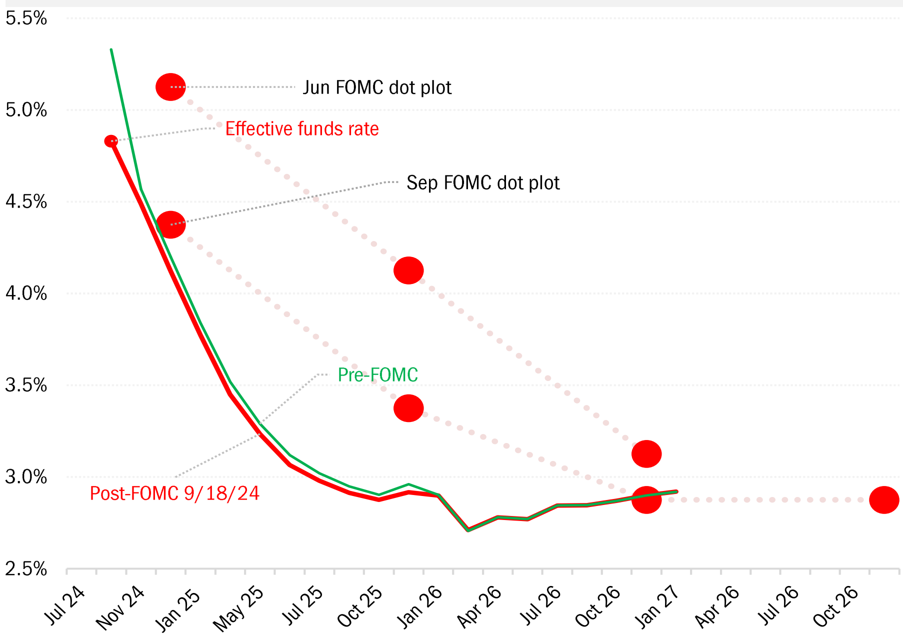
It's an aggressive move, but not as aggressive as it seems – and surely not a panic.

The FOMC cut the funds rate 50 bp from 5-3/8% to 4-7/8%. The 62% market-implied probability for today's double-cut proved to be correct. We had expected only 25 bp. *The Summary of Economic Projections' "dot plot" puts the rate at 4-3/8% at year-end, implying 25 bp rate cuts at both the November and December meetings* (please see the chart below).

For the first time since June 2022, there was a dissent on the committee – Governor Michelle Bowman who preferred 25 bp.

- *We want to say at the outset that we don't think it matters one way or the other, 50 bp or 25 bp, and as of this writing largely unchanged markets suggest agree with us*. As we have been saying for months, policy is not as restrictive as the Fed has thought it was. If it were, after all this time we would have had a

Fed funds futures curve (based on effective funds rate)



Source: Bloomberg, TrendMacro calculations

Update to strategic view

FEDERAL RESERVE, US MACRO: It's 50 bp, not the 25 bp we had expected. The 2024 "dot plot" was moved down to anticipate 25 bp cuts at both the November and the December meetings. We continue to believe this doesn't matter one way or the other, despite the seeming aggressiveness of it. The Fed has not been as restrictive as it has thought, or there would have already been a recession. The statement added language expressing commitment to "supporting maximum employment," setting it next to returning inflation to target for the first time since June 2022. But the labor market is at the Fed's mandate of maximum employment, as Powell acknowledged today. He is right in seeing this cut as not the result of being behind the curve, but assuring that the Fed doesn't get behind the curve.

[Strategy dashboard]

recession. So there is no particular rush to ease policy a pre-emption of recession (again, see "On Powell at Jackson Hole").

In today's FOMC statement the critical change was the addition of four little words, strongly changing the sense of a sentence that has been in place unchanged, word for word, since the June 2022 FOMC when the Fed first panicked about inflation with the first of four 75 bp rate hikes.

> The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective.

For more than two years this sentence was meant to signal the Fed's transcendent commitment to dealing strongly with what it saw, rightly or wrongly, as an inflationary emergency. So does this mean the Fed now sees jobs emergency? No.

In the post-meeting press conference, Chair Jerome Powell was asked about this by several reporters, coming at it from several angles. Powell said decisively and correctly that the labor market pretty much reflects "maximum employment – about at mandate." *When asked if the 50 bp double-cut means that the Fed believes it is behind the curve, he said no* – and the double-cut means it won't get behind the curve. What labor market indicators is he looking at to determine this? "I could go on and on."

- Right on all counts. The Fed is not behind the curve. And Powell can indeed go on and on.

As aggressive as the FOMC's double-cut might seem, in some dimensions the committee did not meet the market's highest hopes. Coming into the meeting, the fed funds futures market was priced for a 2-7/8% rate at the end of 2025, with the "dot plot" put up at the June FOMC Summary of Economic Projections at 4-1/8%. The "dot plot" was moved down to 3-3.8%, meeting the market more than half way, but not all the way. As of this writing, the futures have not changed their implicit prediction – which explains why markets overall have reacted so little to this seemingly very aggressive FOMC.

Bottom line

It's 50 bp, not the 25 bp we had expected. The 2024 "dot plot" was moved down to anticipate 25 bp cuts at both the November and the December meetings. We continue to believe this doesn't matter one way or the other, despite the seeming aggressiveness of it. The Fed has not been as restrictive as it has thought, or there would have already been a recession. The statement added language expressing commitment to "supporting maximum employment," setting it next to returning inflation to target for the first time since June 2022. But the labor market is at the Fed's mandate of maximum employment, as Powell acknowledged today. He is right in seeing this cut as not the result of being behind the curve, but assuring that the Fed doesn't get behind the curve.

Contact TrendMacro

On the web at
trendmacro.com

Follow us on Twitter at
twitter.com/TweetMacro

Donald Luskin
Dallas TX
214 550 2020
don@trendmacro.com

Thomas Demas
Charlotte NC
704 552 3625
tdemas@trendmacro.com

Michael Warren
Houston TX
713 893 1377
mike@trendmacro.energy

[About us]