



# FOMC Meeting: Key Takeaways

May FOMC meeting

May 3, 2023

## Policy announcement

The Federal Open Market Committee (FOMC or the Committee) increased the federal funds rate by .25% (25 basis points<sup>1</sup>) to 5.00% – 5.25%. The FOMC replaced prior language that “some additional policy firming” may be warranted, with language that suggests the Federal Reserve (Fed) is now “determining the extent to which additional policy firming may be appropriate”. The Fed continues reducing its holdings of Treasury securities, agency debt, and agency mortgage-backed securities in 2023 in accordance with its statement released in May 2022.

### Stated reasons

- Economic activity expanded at a modest pace in the first quarter. Job gains have been robust in recent months and the unemployment rate has remained low. Inflation, however, still remains elevated.
- We believe the U.S. banking system is sound and resilient. Recent developments are likely to result in tighter credit conditions for households and businesses and to weigh on economic activity, hiring, and inflation. The extent of these effects is uncertain. The Committee remains highly attentive to inflation risks.

### Looking forward

- The FOMC statement sets the stage for a pause at the upcoming June FOMC meeting, but ultimately economic data will determine if the terminal federal funds rate has been hit for this cycle. In the coming months, data will need to show that the Fed’s goal of returning inflation to 2% over time can be met.
- The FOMC is taking into account the cumulative tightening of monetary policy, the lags with which monetary policy may affect economic activity and inflation and economic and financial developments. In the past five Fed tightening cycles since 1990, long-term U.S. Treasury yields have peaked before the end of the tightening cycle but did not begin a clear declining trend until the tightening cycle was over. We acknowledge that, although the current Fed tightening cycle may still not be over, we believe long-term rates have already tested their peak for this cycle.

### What else?

- While the Fed has signaled its bias for a pause in rate hikes at the June meeting in this announcement, concluding that the Fed is now done hiking for this cycle would be premature. We continue to project one additional 25-basis-point rate hike before year-end. More importantly, markets are projecting multiple federal funds rate cuts before year-end, a view we think is too optimistic.
- Given our expectation that the federal funds rate will remain elevated through year-end, we continue to position portfolios defensively. We see asymmetric risk to the downside in risk markets. We believe fixed-income investors may want to consider locking in a portion of their fixed-income portfolios at current yield levels, effectively implementing a barbell strategy by investing into the long and short end of the curve.

### Upcoming meeting schedule

- June 14\* | July 26 | September 20\* | November 1

\*Indicates the meeting is associated with a summary of economic projections. In addition, every meeting will be accompanied by a press conference.

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1. 100 basis points equal 1%.

**Risk Considerations**

All investing involves risks including the possible loss of principal. Bonds are subject to interest rate, credit/default, liquidity, inflation and other risks. Prices tend to be inversely affected by changes in interest rates.

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