To Our Valued Clients,

And just like that, we have our first interest rate cut of the cycle. Following another highly anticipated FOMC meeting, Federal Reserve Chair Jerome Powell announced yesterday that the Committee has decided to lower the federal funds rate by 0.50%, moving the effective rate from 5.33% to 4.83%.

Following an aggressive interest rate hiking campaign and a subsequent 14-month pause, the Fed has made the decision to move its policy rate, the benchmark for all other interest rates throughout our economy, lower. The choice to cut rates was almost unanimously anticipated, the only real question was: by how much? Powell noted solid but moderating economic growth, falling inflation, and softening in the labor market as the justification for opting for the 50bps cut as opposed to the 25bps that some anticipated. The balancing act for Powell and the rest of the Committee was cutting too little and risking further weakness in the labor market and potentially hampering economic growth, or cutting too much, overstimulating the economy and reaccelerating inflation. Ultimately, they believed the data supported the 50bps cut.

From the Fed's perspective, they likely feel that the decision to go with the larger cut may alleviate some of the mounting pressure from critics who have argued that delaying rate cuts places the health of our economy at risk. Now, with the large reduction and a commitment to act further if necessary, Powell and the rest of the Committee can assert that they are responding decisively to evolving conditions. Currently, the Fed is projecting another 50bps of rate cuts before year-end.

As you listen to pundits debate the implications of yesterday's meeting or read articles about whether or not this was the correct move, it's important to remember the role that the Federal Reserve plays and why they make these decisions. The Fed pursues two objectives; price stability and maximum employment. In simple terms, yesterday's decision reflects their assessment that current economic conditions and the balance between their two mandates allow them to steer the federal funds rate back toward their long-term target of 2.8%. Thanks for reading, and as always, if you have any questions or if we can help in any way, please don't hesitate to give our office a call.

With My Best Regards,

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Sources: World Federation of Exchanges, Statista, European Central Bank, GB Office for National Statistics, U.S. Bureau of Economic Analysis