

Market Insights

Key Takeaways from the March FOMC Meeting

LIQUIDITY | GLOBAL LIQUIDITY TEAM | MARKET INSIGHT | MARCH 20, 2019

While the Federal Open Market Committee (FOMC) kept the range for the federal funds rate unchanged at 2.25%-2.50% during its March meeting, their forward-looking statements were more dovish than anticipated with the Committee downgrading expectations for the economy, lowering its rates outlook, and ending its balance sheet normalization sooner than expected.

FOMC Meeting Summary¹

- **Monetary Policy Decisions**
 - Unanimously voted to maintain the target range for the fed funds rate at 2.25%-2.50%
 - Kept the interest on excess reserves unchanged at 2.4%
- **Rates Outlook**
 - FOMC member consensus projects there will now be no rate hikes in 2019, versus the two that were expected at the December meeting. As a result, the median fed funds rate forecast for 2019 dropped to 2.4% from 2.9%
 - Median rate forecasts indicate the Fed believes there will be one additional hike in 2020, bringing the median fed funds rate projection to 2.6%
 - The median of the longer-run neutral rate remained unchanged at 2.8%
 - Fed noted in light of global economic and financial developments and muted inflation pressures, the Committee will be patient as it determines what future adjustments to the federal funds rate are appropriate
- **Assessment of Economic Conditions**
 - Chair Powell stated that while the labor market remains strong, growth of economic activity has slowed in the first quarter due to a number of factors including international headwinds
 - GDP projections were revised downward from the FOMC's December meeting, with 2019 projections now at 2.1% from 2.3%
 - Unemployment rate for 2019 was revised to 3.7%, up from 3.5% at the FOMC's December meeting
 - Core inflation remains around the FOMC's 2% target, and is expected to be 2.0% in 2019 and remain at target levels through 2021
- **Balance Sheet Normalization**
 - Fed announced it will slow its reduction of its holdings of Treasury securities by reducing the cap on monthly redemptions from the current level of \$30B to \$15B beginning in May 2019
 - Fed will end the reduction of its aggregate securities holdings in the System Open Market Account (SOMA) at the end of September 2019
- **Market Reaction**
 - Treasuries rallied substantially after the FOMC announcement with yields on U.S. Treasuries (2-year, 5-year, and 10-year) all falling 8-10 basis points

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¹ Source: FOMC March 20, 2019 Statement.

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