



NEWS ALERT

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CMC UPDATE: FOMC Keeps Federal Funds Rate Steady

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The Federal Reserve Open Market Committee (FOMC) maintained the federal funds rate in the 5.25% to 5.50% range but announced a slowing of the pace of Quantitative Tightening (QT). Beginning in June, the runoff cap for Treasury securities will be reduced to \$25 billion per month, from \$60 billion. The mortgage-backed securities runoff cap remains at \$35 billion.

The rebound in inflation has pushed out rate cut expectations for 2024. Services inflation is running hot and the deflationary impulse on the goods side from easing supply chains has diminished. This is why the Fed was more hawkish regarding the progress on inflation, signaling an intent to wait longer to ensure that inflation will sustainably move to the 2% target.

For the Fed to gain confidence, it needs the economy to show some signs of cooling. But with consumer spending running at a 2.5% quarter-on-quarter annualized pace, there is little evidence that demand-driven inflation will ease soon.

Consequently, we have adjusted our forecast and now expect one 25 bps rate cut in the Fall.

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