[theme music]

A light gray screen with dark gray text that reads 'Federal Open Market Committee' scrolls across the screen in segments then scales down to the full title. Scene fades to white.

A male host named Tim Sustak stands in front of a gray wall with two dark, wooden books shelves with various books and decorations on them. Below him is a screen width gray graphic with a blue border on top and white letters that read, 'Federal Open Market Committee Update- Tim Sustak -January 31, 2019.

Tim: Hi, I'm Tim Sustak, Chief Credit Officer with Vizo Financial and this is your FOMC update for the January 2019 meeting.

Tim: Nobody was caught by surprise when the FOMC left rates alone at the January meeting. However, aside from rates, the FOMC said plenty about where they stand moving forward.

Tim: In its statement following the meeting, the FOMC indicated they chose to leave the target fed funds range unchanged at 2.25% on the lower end, and 2.50% on the upper end. They indicated that overall economic activity was rising at a solid rate, however, they removed the language that indicated they believed some further gradual increases in rates were warranted. In its place, the committee simply said that it expects sustained expansion of economic activity, strong labor market conditions, and inflation near the committee's 2% goal as the most likely outcome moving forward. The committee also indicated that it would be patient as it determines future adjustments to the fed funds range, given global economic and financial developments.

Tim: Overall, this statement is a pretty big departure from where the committee has been headed, and one that the markets were hoping they would hear. Gone is the sentiment that further rate hikes are a foregone conclusion. In fact, the current stance of the Fed leaves one wondering if there will be any further rate increases, or, if maybe a decrease is in the cards as the next move. The markets currently see the latter, with the probability of a hike through the next year at almost 0%, and the probability of a cut at about 23% by Jan of 2020. We'll review what Chairman Powell said at his post-meeting press conference, after the break.

Fade to black.

[music playing]

White screen with blue, green and red squares with images of people moving up and down and side to side.

The words, 'Financial Strategies Workshop 2019' in white.

Words fade. New words in blue appear that read, 'Richmond, VA Hilton Richmond Downtown March 27, 2019'.

A blue square moves over the words and new words in blue appear that read, 'King of Prussia, PA Valley Forge Casino Resort April 24, 2019'

Various colors of blue and green squares continue to move across screen.

A blue square moves over the words and new words in blue appear that read, 'Pittsburgh, PA DoubleTree Pittsburgh Cranberry May 8, 2019'

Various colors of blue and green squares continue to move across screen.

Fade to black.

Tim: Welcome back! Chairman Powell is holding a press conference after each FOMC meeting now, and there was some ear candy for the markets at this one. He indicated that the outlook for the economy is still positive, but admitted that over the past few months, the committee has seen some “cross-currents and conflicting signals about the outlook”. Despite its best efforts to look the other way, the accumulation of things like slowing growth in China and Europe, Brexit, trade tensions and tariffs, the partial government shutdown, and waning business and consumer sentiment have finally gotten the committees attention.

Tim: Given the conflict between the committee’s generally positive US economic outlook, and all of the other headwinds we just mentioned, the Chairman said that “common sense risk management suggests patiently awaiting greater clarity”. In further support of the committee’s current sentiment, he indicated that “the traditional case for rate increases is to protect the economy from risks that arise when rates are too low for two long, particularly the risk of too-high inflation. Over the past few months, that risk appears to have diminished”. It will be interesting to see how the Fed’s dot plot changes when we get a new set of predictions in March. Remember, in December the dots indicated two 25 bp hikes for 2019, and the current stance of the Fed does not seem to support that.

Tim: Another interesting topic of the press conference was the Fed’s balance sheet normalization. The Fed has been reducing the size of balance sheet that it built up during quantitative easing, which has also been putting upward pressure on rates. The chairman indicated that they are committed to the current method of implementing monetary policy; that is to use their administered rates to control the policy rate, and to leave an ample supply of reserves in the system so they do not need to actively manage them. In addition, the appetite of financial institutions to hold reserves is estimated to be greater than before the crisis. This paves the way for a larger Fed balance sheet than was historically the case, and allows balance sheet normalization to be completed sooner than previous estimates, meaning the end of the balance sheet runoff cycle is likely very near.

Tim: So, it seems the pendulum has swung quite far in the past few months. In October 2018 the markets were roiled when Chairman Powell indicated that rates were likely a long way from neutral, and now in January 2019 we are looking at the end of both the rate hike cycle and balance sheet normalization. Many interests have been wanting the Fed to turn more dovish concerning rates; they have not disappointed!

Tim: That’s the update for the January FOMC meeting. Thanks for watching!

Light grey screen appears with a blue graphic with white lettering that reads, ‘Thanks for watching.’ Graphic fades and Vizo Financial logo appears. Vizo Financial logo fades out and disclaimer text appears on screen.

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