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FED WATCH

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KEEP IT STEADY

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As widely expected, the FOMC maintained its federal-funds rate at the current range of 4.25 - 4.50%. Today's decision marks the first pause since a "recalibration" of policy began in September on fears of a deteriorating labor market.

Some language in the policy statement had changed since the last FOMC. Notably, "inflation has made progress toward the committee's 2 percent objective" was removed from the statement. When asked about the significance of the change during the post-meeting press conference, Federal Reserve Chair Jerome Powell clarified that this was simply a case of "language cleanup". Retiring a phrase is not uncommon, and the language in the statement can change over time. The Fed chair added that inflation data since the last FOMC meeting had been moving in the right direction.

FOMC Statement Changes
Since June 2024

	Jun 2024	Jul 2024	Sep 2024	Nov 2024	Dec 2024	Jan 2025
Inflation	Inflation has eased over the past year but remains elevated. In recent months, there has been modest further progress toward the Committee's 2 percent inflation objective.	Inflation has eased over the past year but remains somewhat elevated. In recent months, there has been some further progress toward the Committee's 2 percent inflation objective.	Inflation has made further progress toward the Committee's 2 percent objective but remains somewhat elevated.	Inflation has made progress toward the Committee's 2 percent objective but remains somewhat elevated	Inflation has made progress toward the Committee's 2 percent objective but remains somewhat elevated.	Inflation remains somewhat elevated.
Employment	Job gains have remained strong, and the unemployment rate has remained low	Job gains have moderated, and the unemployment rate has moved up but remains low.	Job gains have slowed, and the unemployment rate has moved up but remains low.	Since earlier in the year, labor market conditions have generally eased, and the unemployment rate has moved up	Since earlier in the year, labor market conditions have generally eased, and the unemployment rate has moved up	The unemployment rate has stabilized at a low level in recent months, and labor market conditions remain solid.
Meeting Action	No change to target rate	No change to target rate	Target rate reduced by 50 bps	Target rate reduced by 25 bps	Target rate reduced by 25 bps	No change to target rate

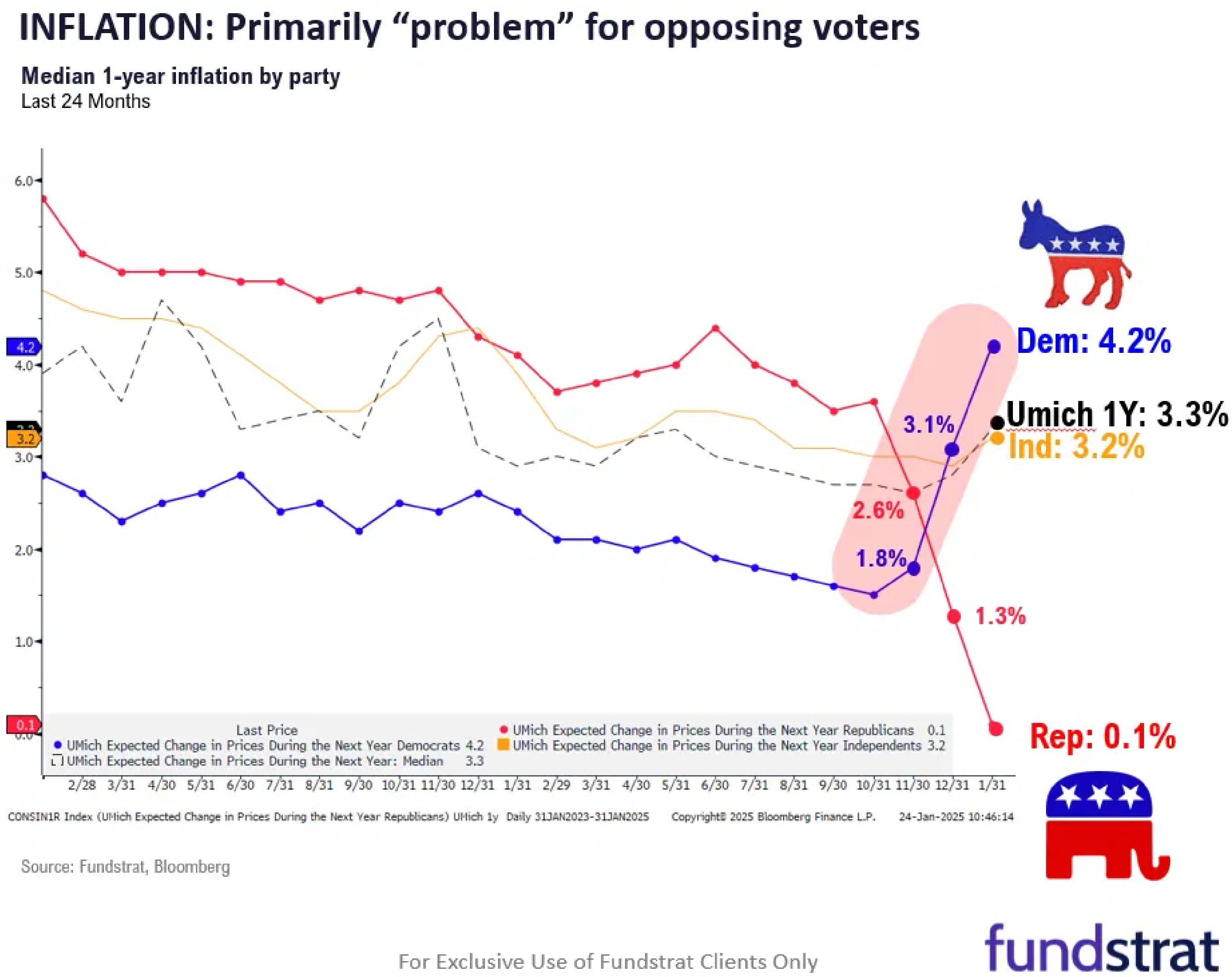
Source: Fundstrat, Fed

Signs have been mounting of a hawkish shift in sentiment. Fed funds futures were even pricing in a 25% chance of a Fed hike prior to today's meeting. Is this hawkish sentiment warranted? We think not. But let's take a look.

In a recent speech at the California Bankers Association, the often-hawkish Fed Governor Michelle Bowman stated she continues to "see upside risks to inflation" and pointed to progress in combating inflation stalling, as measured by the Fed's preferred inflation gauge, PCE.

PCE steadily decreased for most of last year, but inched back up to 2.4% (2.8% excl. food and energy) in November. As Bowman explains, this is only slightly below the 3.0% percent reading at the end of 2023. Perhaps most interesting was her concern that "the current stance of policy may not be as restrictive as others may see it. Given the ongoing strength in the economy, it seems unlikely that the overall level of interest rates and borrowing costs are providing meaningful restraint."

Other hawks pointed to the recent University of Michigan consumer survey, where the median one-year inflation expectations surged following the election. However, Fundstrat Head of Research Tom Lee cautions against assigning too much significance to this, as the sudden rise seems to indicate more of a political tilt.



Fed Governor Christopher Waller gave a far more optimistic outlook in a recent speech in Paris. While he also noted that progress on inflation stalled in the final months of 2024, he believes "that inflation will continue to make progress toward our 2 percent goal over the medium term and that further reductions will be appropriate."

He is optimistic on inflation dropping further, citing that much of the inflation last year was driven by increases in imputed prices, like housing services, which are not directly observed but estimated. It's well known that the CPI shelter component tends to lag actual market rents due to its methodology.

Tom Lee has repeatedly highlighted that he expects core CPI to cool in 2025 as the shelter CPI now faces easier comparisons on a YoY basis. Furthermore, the new tenant rent index (seen as more of a leading indicator than shelter CPI) came in negative, pointing to further softening.

So where does that leave us?

Eagerly waiting for the next FOMC, of course!

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