The FOMC cut the policy rate by 50bps, with market expectations split, as many thought the Fed would prefer start easing moderately with a 25bps reduction. (UBS).

CIO first take: The Fed takes bold step with a 50bp cut

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Following the post-pandemic inflation shock and one of the swiftest and most intense monetary tightening cycles in recent history, the FOMC decisively concluded that it's time to ease. Fed Chair Jerome Powell asserted that, given the progress in inflation and the labor market, policymakers believe it's time to recalibrate the policy stance.

Main takeaways

The Fed reduced the policy rate by 50bps, to a new target range of between 4.75% and 5.00%. This cut follows a tightening cycle of 525bps, which started in early 2022, responding to rising inflation as part of the aftermath of the COVID-19 pandemic.

The FOMC also released its Summary of Economic Projections (also known as the dot plot), which clarifies the expectations of board members going forward. In the dot plot, policymakers forecast additional cuts of 50bps this year (implying 25bps in each of the remaining two meetings) and 100bps of further easing in 2025. Overall, these are slightly more dovish projections than those in the dot plot released three months ago.

Fed Chair Powell stated in the press conference that the economy is in a good place and that the board would like to keep it there. He underlined that the there is a greater degree of confidence that inflation is moving sustainably to the 2% target, while acknowledging the seeming deceleration in the labor market, as is apparent by the rise in the unemployment rate. Powell noted that data revisions suggest payroll figures may have been overestimated.

CIO's Senior US Economist Brian Rose stated that the Fed decision was “in line with our expectations of 100bps of cuts this year.” He clarified that policymakers likely preferred to “front-load some of the cuts” this time around, given the ongoing dynamics of inflation and unemployment. Brian added that Powell's mention of the Beige Book suggests that the information provided by the Fed's private sector contacts likely served as a warning about potential downside risks to the economy.

Bottom line

We have emphasized that from a long-term investment standpoint, whether the Fed started the easing cycle with 25bps or 50bps, it does not make much of a difference. In our view, what should be kept at the forefront is that we are headed toward a lower rates environment, which coupled with an economy set to a soft landing, favors being positioned in higher-quality fixed income and fully allocated in the US equity market.

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