In the June meeting, the Federal Reserve Open Market Committee kept the Fed funds range unchanged at 5.25-5.50%, where it's been since July 2023. There were no voter dissents.

The formal statement was minimally changed, from 'a lack of further' to 'modest' progress toward their inflation objective. The quarterly Summary of Economic Projections (SEP) for June was released, with estimates for the Fed funds rate at year-ends 2024, 2025, and 2026 at 5.1%, 4.1%, and 3.1%, respectively; the 2024 estimate is a half-percent higher than in March, while that for 2025 ticked up 0.2%. The 'dot plot' of FOMC member views points to 1-2 cuts this year, as opposed to the three expected in March.

CME Fed funds futures markets estimated the chances of no action today at just under 100%; odds had risen steadily over the past quarter as Fed rate cut hopes faded. For July, the odds of no change had recently wavered between 80-90%, with some volatility this morning over early odds of a possible cut, which have now also faded. September shows odds of one quarter-percent cut rising from 50% to over 60% in the past day or so, while those for December now fall around two cuts. The furthest-out odds available (Sept. 2025) point to the highest odds of rates falling at around 4.00%, which equates to 5-6 cuts from today's levels.

Economy. After the second release, GDP growth for Q1 was downgraded to 1.3%—while the underlying personal consumption engine remains strong, growth was pulled down by other factors. The Atlanta Fed's GDPNow estimate for Q2-2024 started as high as 4% earlier in the quarter and fell as low as 1.8% in the last few weeks, before rebounding back to 3.1%. That quant result continues to run above the Blue Chip economist consensus of around 2.0%, which is closer to the rate of longer-term trend growth. The Fed's June SEP pointed to GDP growth expectations of 2.1% for 2024, 2.0% for 2025, 2.0% for 2026, and 1.8% for the long run, none of which were changed from the March release.

Inflation. This morning, May CPI came in showing a trailing 12-month rate of change at 3.3% for headline, and 3.4% for core, ex-food and energy—both cooler than expected and inspiring to both stock and bond markets. The Fed's primary metric, core PCE, has stayed sticky through April, although it had fallen a bit further to 2.75%. The June SEP showed core PCE inflation assumptions of 2.8% for 2024 (up 0.2% from March), 2.3% for 2025 (up 0.1%), and 2.0% for 2026 (unchanged). The inflation picture continues to improve—albeit slowly—that slowness being the key rationale behind the Fed and other central banks not proceeding faster into an easing regime. The Fed has noted they want more 'confidence' in inflation being beaten, but that is certainly a gray area. Central banks have stubbornly remained steadfast to their 2.0%-ish inflation targets, although there is now some begrudging acceptance that underlying dynamics could cause the 'normal' inflation rate to still run above target for a stretch. Some of these include the aftermath from immense global fiscal stimulus (up to $5 tril. in the U.S. alone) to combat the pandemic, a geopolitical near-shoring effort that could reverse decades of cost savings from globalization (particularly from China), a scarcity of skilled labor, and higher growth from AI-fueled productivity gains. On the other hand, demographics and the same technology efficiencies could have a downward effect on inflation to some degree as well. The path inflation takes from here remains the wildcard.

Employment. Labor has continued to run at a stable to robust pace. Nonfarm payrolls and wage growth remain robust, and jobless claims remain low, even as job openings steadily normalize lower. The unemployment rate for May ticked higher to 4.0%, with an impact from labor force participation, the data for which has been affected by a recent immigration surge, which tends to impact the lower-wage job market. The June SEP showed expectations for the unemployment rate of 4.0% for 2024 (unchanged from March), 4.2% for 2025 (up 0.1%), 4.1% for 2026 (up 0.1%), and long-run of 4.2% (up 0.1%). Current data points to a benign jobs environment that may not improve significantly further, but isn't deteriorating rapidly, either. As one of the Fed's two primary mandates, signs of more intense deterioration in labor conditions could be a catalyst for quicker and/or more rate cuts, should that occur.

Little has changed from the standpoint of the Fed's monetary policy choices since the May meeting, except that the European Central Bank (ECB) has begun rate cuts, as have Canada, Sweden, and Switzerland—other than today's cooler CPI report. The key difference for those regions is weaker underlying economic growth relative

to the U.S. More recent data points to less exciting economic growth in the U.S. going forward, too, but it hasn't slowed to the point where recession again appears to be an imminent risk. The well-worn saga of inflation remains the one controlling the narrative, especially with price levels for core services and wage growth staying elevated.

Expectations earlier this year for a half-dozen rate cuts in 2024 have faded, but there is still time for the Fed to begin an easing process by year-end, even if it's of a slower and moderated variety. As it stands today, overall financial conditions are mixed. They're tighter than they were a few years ago in some respects (the most obvious being policy rates at 5% vs. 0%, in addition to a not-unrelated strong U.S. dollar), while other indicators point to looser conditions (seen in higher stock prices and tighter credit spreads). Together, these bring a degree of balance overall.

Regardless of the pace, history tells us that periods when interest rates were stable to moving lower have tended to be positive for stocks, bonds, and real estate—assuming recession doesn't throw a wrench in the plan. Even if the current soft landing base case doesn't hold out indefinitely, there don't appear to be the financial excesses, leverage, or buoyant optimism often necessary as a precursor to a deeper downturn. Instead, the mood remains rather sour, often a contrary indicator, where the improvement of which could sustain momentum for risk assets. Overall conditions aren't so bad out there.

Ryan M. Long, CFA
Director of Investments
FocusPoint Solutions, Inc.

Sources: CME Group, Federal Reserve Bank, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, FocusPoint Solutions calculations.