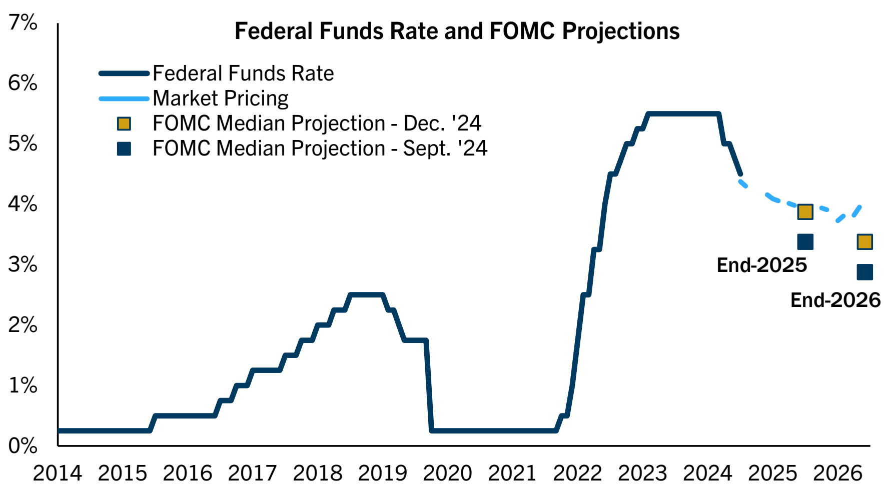
Federal Open Market Committee Meeting | December 18, 2024

Rate Cut Today, Future Cuts Less Certain

As widely expected, the Federal Reserve cut the federal funds rate by 0.25% today, bringing total cuts since September to 100 basis points. The Summary of Economic Projections showed the median policymaker sees two further 25 basis point cuts next year, two fewer than the Committee projected three months ago. Financial markets also see the Fed delivering less easing and at a slower pace compared to a few months ago.

Why is this? As we recently wrote, economic data has outperformed expectations since the FOMC began cutting the overnight rate in September. Growth has stayed strong, inflation is still above the Fed's 2% target, and financial conditions – such as stock prices and interest-rate spreads – have remained easy. **With the economy and financial markets proving resilient, the need for significant interest rate cuts is much less obvious.**

Exhibit 1: Federal Funds Rate and FOMC Projections



Source: Federal Reserve, Bloomberg

During his press conference, Chair Powell emphasized that the economy is currently in a good place, and that the Fed's policy is much closer to a "neutral" stance compared to a few months ago – that is, a rate that neither stimulates nor restricts economic activity. **Powell's comments and the Fed's post-meeting policy statement opened the door to the Fed pausing its interest-rate cutting campaign at its next meeting in January, a move markets already expected.**

What is next from here? Markets and Fed policymakers will scrutinize upcoming inflation and labor market reports for the latest signals on the direction of the economy. If the unemployment rate stays near 4.2% and inflation remains moderately above the Fed's target, the Fed may stay on hold. Conversely, if the labor market shows signs of faltering – as it did over the summer – then the Fed may resume its rate cuts. For much of the last three years, it has been obvious the Fed has been raising rates, standing pat, or cutting rates. **In 2025 none of these biases are obvious, and investors will have to reckon with a much more uncertain path of monetary policy.**

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Takeaways

- The FOMC cut the overnight rate by 0.25%.
- Total cuts now amount to 1% since September.

What does it mean for you?

- The economy remains strong and financial markets are proving resilient.
- The need for future interest-rate cuts is less obvious.

What to watch

- The Fed may continue to cut rates in 2025, but likely by less than markets previously expected.
- Labor market and inflation data will remain important in determining future monetary policy decisions.

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