## September 19th and 20th FOMC Meeting Follow-Up:

***Ongoing Policy Normalization:*** The FOMC voted unanimously to maintain the Fed Fund target range at 1.00% to 1.25%. With the futures implied probability of an additional hike below 1% for the past several weeks, any activity on the rates front would have been highly unexpected and disruptive. The meeting was not without action, however, as the FOMC followed through on the quantitative tightening policy it described in June. Effective in October, the Fed's $4.5 trillion stockpile of assets will begin to dwindle as principal payments from U.S. Treasury and Agency MBS will be reinvested only to the extent that they exceed gradually rising caps. Markets appear comfortable with this measured and well-telegraphed process.

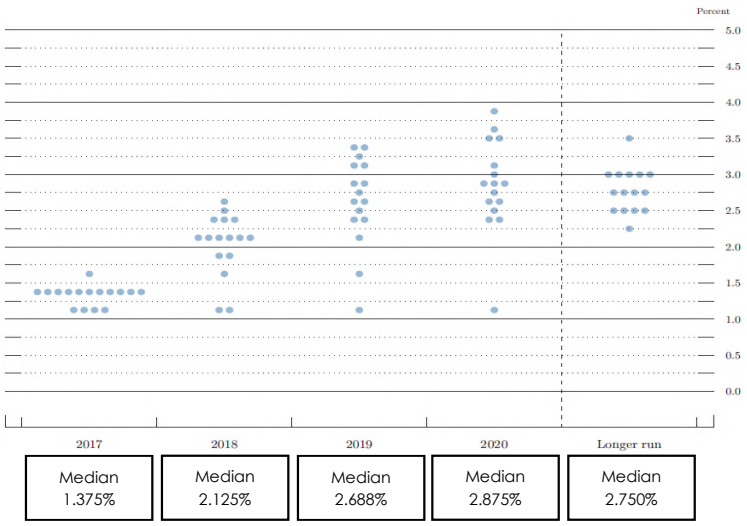
***Growth:*** The official statement indicated that "household spending has been expanding at a moderate rate, and growth in business fixed investment has picked up". Acknowledging Hurricanes Harvey, Irma, and Maria, the statement indicated that disruptions and rebuilding will affect near-term activity, but history suggests that such storms typically don't have lasting impacts on the national economy. Median GDP expectations for 2017 were higher at 2.4%, as the range of estimates (2.2% to 2.7%) increased by 20 bps. The latest central tendency estimate for longer-run growth (1.8% to 2.0%) was unchanged.

***Unemployment:*** Despite new hires coming in below expected in August, the statement noted how "job gains have remained solid in recent months, and the unemployment rate has stayed low". The official unemployment rate of 4.4% is very near the 16-year low, but the lackluster pace of wage growth (recently stuck at around 2.5%) remains confounding to some. The Committee maintained its central tendency for longer-run unemployment at 4.5% to 4.8%, but the full range of participant projections now include the possibility of sub-4% unemployment readings over the next few years.

***Inflation:*** The statement noted again how "market-based measures of inflation compensation remain low". The just-released Core CPI reading for August came in at +1.7% year-over-year, and remains toward the low end of the 1.6% to 2.3% range that has persisted since mid-2011. The Fed's preferred measure (Core PCE) continues to reside well below this level at +1.4%. The central tendency projections were slightly lower in the next year or so, with inflation increasing to the FOMC's 2% objective by 2019. The Committee is "monitoring inflation developments closely", with awareness around inflation surprises.

***Rate Projections:*** The Committee's forward looking expectation for rates were somewhat mixed. The "dots plot" continues to project another 25 bps hike by the end of 2017, followed by three more quarter-point hikes in 2018. While this could be portrayed as mildly hawkish, the group seems to have removed some tightening from 2019, and the longer-run central tendency fell to 2.75%. Interestingly, initial projections for 2020 may foreshadow the end of the hiking cycle, as front-end rates are anticipated to rise modestly above that terminal level. At this point, the market is showing a 60% chance of an additional hike by year-end, and much less upward migration in 2018 than FOMC participants themselves are forecasting.

### *Revised Dot Plot:*




### *Futures Implied Probabilities:*

| Meeting Date | 1.250% | 1.500% | 1.750% | 2.000% | >2.000% | Implied Rate |
|---|---|---|---|---|---|---|
| Nov-17 | 99.22% | 0.78% | 0.00% | 0.00% | 0.00% | 1.25% |
| Dec-17 | 40.25% | 59.29% | 0.46% | 0.00% | 0.00% | 1.40% |
| Jan-18 | 39.10% | 58.75% | 2.14% | 0.01% | 0.00% | 1.41% |
| Mar-18 | 28.87% | 53.61% | 16.95% | 0.57% | 0.00% | 1.47% |
| May-18 | 28.68% | 53.44% | 17.20% | 0.68% | 0.01% | 1.47% |
| Jun-18 | 20.79% | 46.63% | 27.16% | 5.22% | 0.19% | 1.54% |
| Aug-18 | 20.64% | 46.44% | 27.31% | 5.38% | 0.23% | 1.55% |
| Sep-18 | 16.52% | 41.29% | 31.12% | 9.76% | 1.31% | 1.60% |

*Source: Bloomberg, calculated 9/20/17

| | 8/31/17 | 9/18/17 | Post-Meeting |
|---|---|---|---|
| 2-Year U.S Treasury | 1.33% | 1.40% | 1.44% |
| 5-year U.S. Treasury | 1.70% | 1.83% | 1.88% |
| 10-Year U.S Treasury | 2.12% | 2.23% | 2.27% |
| 30-year U.S. Treasury | 2.73% | 2.80% | 2.81% |
| S&P 500 Index | 2471.7 | 2503.7 | 2508.24 |
| S&P 500 Volatility | 10.6 | 10.2 | 9.8 |

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