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# Federal Reserve Monetary Policy

## *Fed Raises Short-Term Interest Rates 25 Basis Points As Expected*

- The Federal Reserve raised the target range of the fed funds rate by 25 basis points.
- The new Dot Plot remains consistent with three 25 basis point rate hikes in 2017 and 2018.

As widely expected, the Federal Open Market Committee voted today to increase the fed funds rate range by 25 basis points, to 0.75-to-1.00 percent. The tone of the monetary policy announcement was just slightly more hawkish than the February 1 announcement. According to the Fed, labor market conditions continue to strengthen and economic activity has continued to expand at a moderate pace. Today's policy announcement specifically notes that business investment appears to have firmed somewhat. The FOMC is still comfortable with the expected pace of inflation, saying that it will stabilize around 2 percent over the medium term. The FOMC expects that economic conditions will warrant gradual increases in the fed funds rate, but that the fed funds rate will remain below the long-run average for some time. The Fed's view on the timing of potential balance sheet operations remains unchanged. The Fed will continue to reinvest maturing assets until interest rate normalization is well under way. We expect balance sheet policy to remain as is through the end of this year. There was one dissenting vote on today's policy action from Minneapolis Fed President Kashkari who would have preferred to leave the fed funds rate unchanged.

Also, the Fed released a new "dot plot" and new economic projections. These are both only slightly changed from the December dot plot and projections. The new dot plot remains consistent with a total of three 25 basis point fed funds rate hikes this year and next. In her post-announcement press conference, Janet Yellen stated that some FOMC officials have incorporated new fiscal policy assumptions in their individual outlooks, but that the complete fiscal picture remains undefined.

It is fair to say that the Yellen Fed remains somewhat tactical in their policy changes. By staying with their projections of three rate hikes this year and next, the Fed is maintaining flexibility around the exact timing of rate hikes. However, at the same time, the fed has now added weight to the precedent of one rate hike every other meeting. As of this writing, the implied odds of the next rate hike coming at the conclusion of the upcoming FOMC meeting on May 3 are quite low at 4.3 percent, according to the fed funds futures market. The odds of the next rate hike coming on June 14 jump to 48.5 percent. With June near even money, that leaves the timing of the third rate hike this year in question, adding to financial market uncertainty. So it looks like the Fed still has some work to do in setting market expectations for the second half of this year. Fed officials are likely waiting as long as possible for some clarity on fiscal policy before they cross that bridge. Nonetheless, they will need to clarify forward guidance soon.

**Market Reaction:** Equity prices increased on the news. There may have been some relief that the Fed did not commit to four rate hikes this year. The 10-year Treasury yield eased to 2.50 percent. NYMEX crude oil is up to $48.90/barrel. Natural gas futures are up to $3.03/mmbtu.