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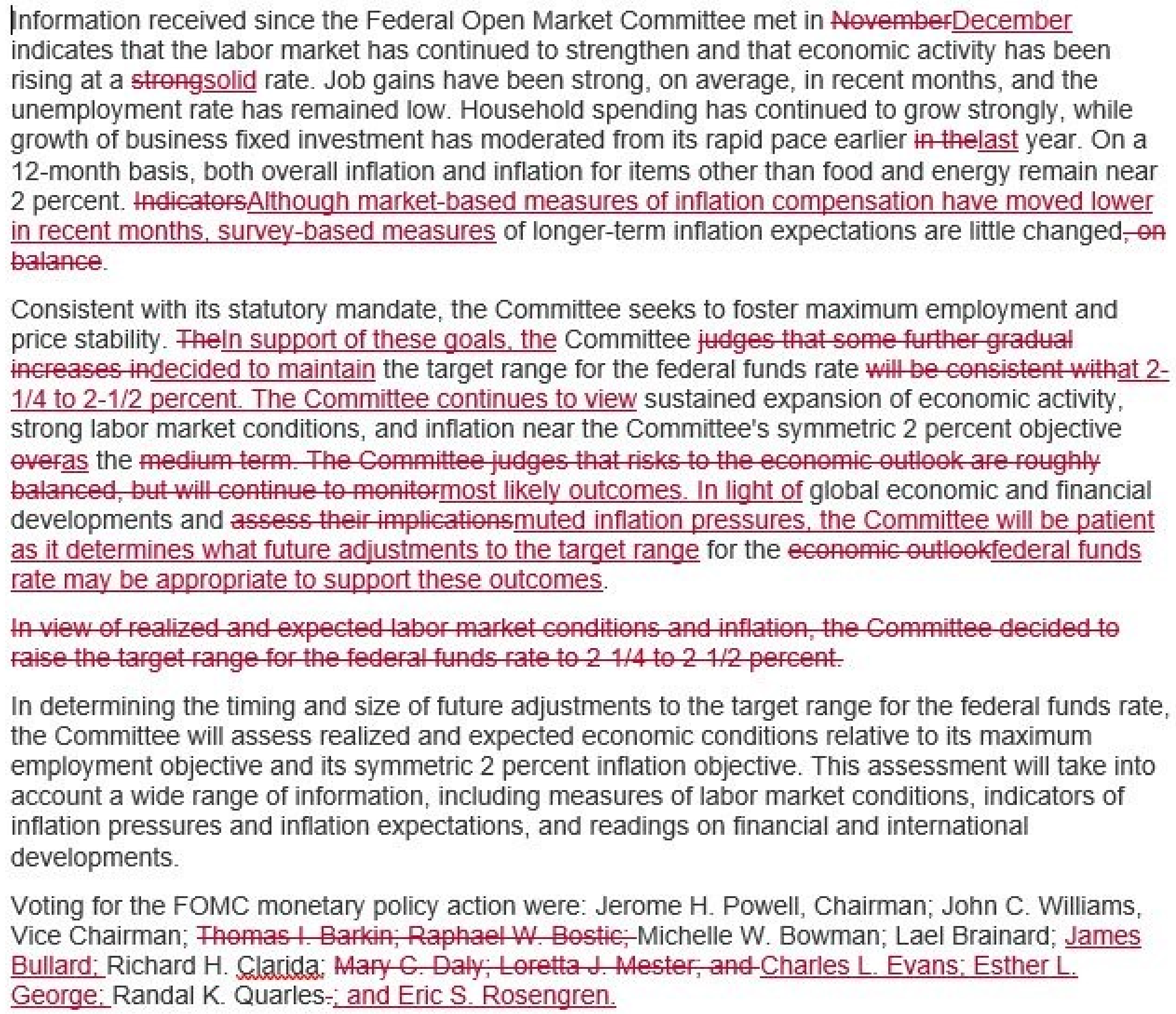
The statement and press conference following the January 30th Federal Reserve policy meeting



Information received since the Federal Open Market Committee met in ~~November~~December indicates that the labor market has continued to strengthen and that economic activity has been rising at a ~~strong~~solid rate. Job gains have been strong, on average, in recent months, and the unemployment rate has remained low. Household spending has continued to grow strongly, while growth of business fixed investment has moderated from its rapid pace earlier ~~in the~~last year. On a 12-month basis, both overall inflation and inflation for items other than food and energy remain near 2 percent. ~~Indicators~~Although market-based measures of inflation compensation have moved lower in recent months, survey-based measures of longer-term inflation expectations are little changed~~, on balance~~.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. ~~The~~In support of these goals, the Committee ~~judges that some further gradual increases in~~decided to maintain the target range for the federal funds rate ~~will be consistent with~~at 2-1/4 to 2-1/2 percent. The Committee continues to view sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective ~~over~~as the ~~medium term. The Committee judges that risks to the economic outlook are roughly balanced, but will continue to monitor~~most likely outcomes. In light of global economic and financial developments and ~~assess their implications~~muted inflation pressures, the Committee will be patient as it determines what future adjustments to the target range for the ~~economic outlook~~federal funds rate may be appropriate to support these outcomes.

~~In view of realized and expected labor market conditions and inflation, the Committee decided to raise the target range for the federal funds rate to 2 1/4 to 2 1/2 percent.~~

In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its maximum employment objective and its symmetric 2 percent inflation objective. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments.

Voting for the FOMC monetary policy action were: Jerome H. Powell, Chairman; John C. Williams, Vice Chairman; ~~Thomas I. Barkin; Raphael W. Bostic;~~ Michelle W. Bowman; Lael Brainard; James Bullard; Richard H. Clarida; ~~Mary C. Daly; Loretta J. Mester; and~~ Charles L. Evans; Esther L. George; Randal K. Quarles~~.~~; and Eric S. Rosengren.

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The next important takeaway came in regards to the Feds balance sheet. In the press conference Jerome Powell, as he has done recently, alluded to the idea that QT is not on ?***autopilot***? anymore. In other words, it is likely the Fed will not continue to reduce the pace at which they are shrinking their balance sheet without considering the economy and financial markets. We stress the word ?autopilot? because that was how Jerome Powell to described the pace of balance sheet reductions at the December 19, 2018 FOMC meeting press conference. The ensuing market mayhem in the days following the press conference appears to have rattled the Fed into modfying that take quite substantially. In fact they have done a 180 degree reversal in only six weeks. The last takeaway curiously involves QE. The Fed released a supplementary statement entitled *Monetary Implementation and Balance Sheet Normalization* in conjunction with the FOMC statement.• The bullet point below from the statement makes it clear thatincreases to the balance sheet, also known as QE, will be a part of their tool kit going forward. This is curious as Powell was adamant that QE two and three should not have been executed after the financial crisis abated. **Now, without much reason, the specter of QE is being raised.**

- The Committee continues to view changes in the target range for the federal funds rate as its primary means of adjusting the stance of monetary policy. The Committee is prepared to adjust any of the details for completing balance sheet normalization in light of economic and financial developments. Moreover, the Committee would be prepared to use its full range of tools, including altering the size and composition of its balance sheet, if future economic conditions were to warrant a more accommodative monetary policy than can be achieved solely by reducing the federal funds rate.

Why?

A reporter asked Powell why the abrupt change in the way policy was being discussed. Powell danced around the question with a dialogue of the government shutdown and slowing global growth. The shutdown was temporary, and the effect is very limited, estimated at less than 0.1% of GDP. Global growth is in fact slowing, but that has been the case for the last nine months. In our opinion, the Fed?s new warm and cuddly tone is all about supporting the stock market. The market fell nearly 20% from record highs in the fourth quarter and fear set in. There is no doubt President Trump?s tweets along with strong advisement from the shareholders of the Fed, the large banks, certainly played an influential role in persuading Powell to pivot. Speaking on CNBC shortly after the Powell press conference, James Grant stated the current situation well.

> ?*Jerome Powell is a prisoner of the institutions and the history that he has inherited. Among this inheritance is a $4 trillion balance sheet under which the Fed has $39 billon of capital representing 100-to-1 leverage. That?s a symptom of the overstretched state of our debts and the dollar as an institution*.?