Market Bulletin

14 June 2017

Reactions following the June FOMC meeting

In brief

- In a widely anticipated move, the FOMC announced at its latest meeting that it would raise its target range for the federal funds rate by 0.25% to a range of 1.00% to 1.25%.
- Though recent economic data have shown signs of weakness in both growth and inflation, the Committee believes that the weakness is temporary.
- The Fed also outlined an explicit path of balance sheet reduction. In a "taper-up" strategy, they would reduce holdings of Treasuries and mortgage-backed securities by $10 billion per month in the first quarter of implementation, $20 billion in the second quarter, $30 billion in the third quarter, $40 billion in the fourth quarter and $50 billion in the fifth and subsequent quarters. They did not specify when they would begin implementation, except to say that they expected it to begin later this year. However, Janet Yellen's comments in her press conference suggest that they could begin as early as September of this year.
- In addition, FOMC participants expect one more federal funds hike this year and three in 2018.

FOMC June 2017 Forecasts*
Percent

	2017	2018	2019	Long Run
Change in real GDP, Q4 to Q4	2.2	2.1	1.9	1.8
March Forecast	2.1	2.1	1.9	1.8
Unemployment Rate, Q4	4.3	4.2	4.2	4.6
March Forecast	4.5	4.5	4.5	4.7
PCE Inflation, Q4 to Q4	1.6	2.0	2.0	2.0
March Forecast	1.9	2.0	2.0	2.0
Federal Funds Rate, end of year	1.4	2.1	2.9	3.0
March Forecast	1.4	2.1	3.0	3.0

Source: Federal Reserve, J.P. Morgan Asset Management. Data as of June 14, 2017.

*Forecasts of 17 FOMC participations, median estimate.

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Changes to economic projections were fairly substantial, particularly with regard to unemployment. Labor market conditions continue to tighten, encouraging the Committee to revise lower both short- and long-term forecasts, perhaps indicating a new level of "natural" employment. Surprisingly, 2017 real GDP growth was revised slightly upward, reflecting optimism on behalf of the FOMC, while 2017 PCE inflation was revised downward, likely due to recent weakness in inflation data. Interestingly, the 2019 federal funds rate target was revised down, indicating that the FOMC may raise rates slightly slower than expected. Altogether, though, long-term projections appear to be largely intact.

Long-term bond yields fell in reaction to the FOMC statement and Janet Yellen's press conference. However, the now explicit path of reducing QE will add substantial supply to the bond market particularly in late 2018 and beyond, approximately equal to the entire borrowing needs of the Federal Government. This being the case, we continue to believe that, in the absence of recession, a tightening Federal Reserve will push long-term rates higher.

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