The Federal Reserve Holds Steady - For Now.

Market Insights | Sean Meunier

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In a period marked by economic challenges, the U.S. Federal Reserve has held its course, reminding us of its role as the sentinel of America's financial landscape. According to the recent press release, "Recent indicators suggest that economic activity has continued to expand at a modest pace. Job gains have been robust in recent months, and the unemployment rate has remained low,". Nonetheless, the issue casting a large shadow remains, as "inflation remains elevated."

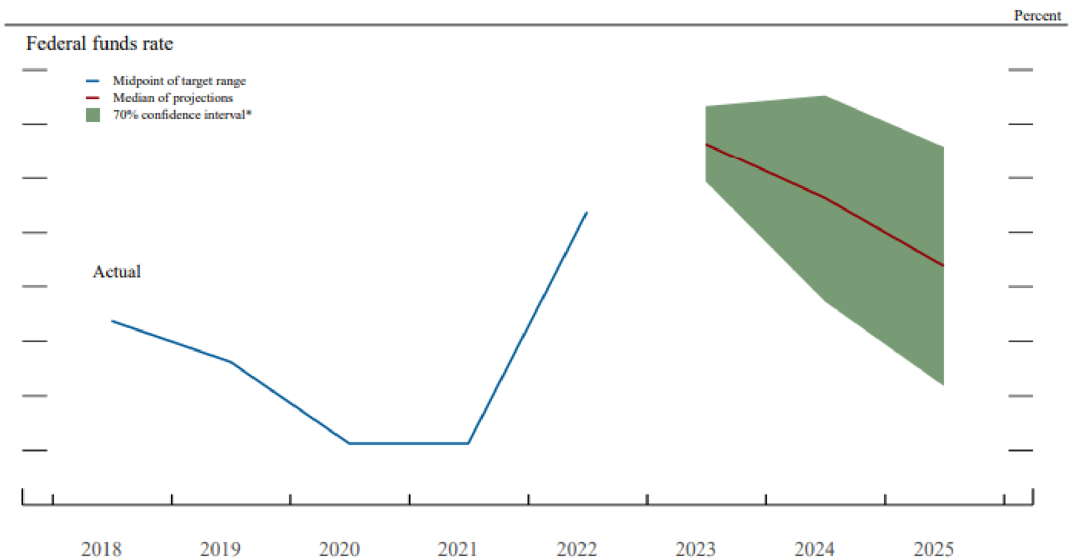
NOTE: Definitions of variables and other explanations are in the notes to table 1. The data for the actual values of the variables are annual.

The Federal Reserve's recent decision was to "maintain the target range for the federal funds rate at 5 to 5-1/4 percent". It is guided by a host of factors that include the "cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments." This pause in adjusting rates allows the Committee to "assess additional information and its implications for monetary policy."

The Committee continues to emphasize its commitment to the "maximum employment and inflation at the rate of 2 percent over the longer run." While the job market's robust health is heartening, the elephant in the room is the high inflation rate. The Federal Reserve's determination to steer inflation back to its "2 percent objective" strongly suggests that we might see more proactive measures in the future to tackle this challenge.

Despite the U.S. banking system being "sound and resilient," the Committee recognizes that "tighter credit conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation."

What's particularly noteworthy is that the Federal Reserve has its sights on more than domestic trends. They are closely monitoring "financial and international developments." This reinforces that in our globally connected economic framework, external disruptions can indirectly influence the Federal Reserve's efforts to control employment and inflation.



The Committee is primed to "adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee’s goals." They will continue to monitor "labor market conditions, inflation pressures and inflation expectations" along with the aforementioned global factors.

*Sources: Federal Reserve

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