
FED WATCH: NO LUMP OF COAL THIS YEAR

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After three consecutive [rate cuts](#), the [Federal Reserve \(Fed\)](#) decided to stay on the sidelines at their final gathering for 2019. While this result was widely expected, it also represented a stark turnaround from the December 2018 [FOMC](#) meeting when the policy makers made Santa's naughty list and hiked the [Fed Funds target](#) for what amounted to the final time in that [rate-hike](#) cycle. Given this most recent outcome, it's safe to say investors will not be getting a lump of coal in their stocking this time around.

Where does that leave us heading into the New Year? In my opinion, Chairman Powell and company have made it abundantly clear that the current state of monetary policy suits them just fine. In fact, to use the language the Fed itself has used of late, "[monetary policy](#) is in a good place." In other words, the Fed feels that the three mid-policy-adjustment rate cuts enacted from the end of July through the end of October should provide enough insurance to keep the economy growing and to help mitigate the risks from trade uncertainty and slowing global growth.

What would it take for the Fed to reconsider this position? Based on comments from Fed officials, it appears as if the bar has been raised for another rate cut. Not only do Powell et al. feel their policy is appropriate, their base case is also centered around continued moderate growth of around +2.0%, or basically right where Q3 real [GDP](#) came in at +2.1%. In order for the policy makers to reconsider their current stance and entertain thoughts of another rate cut, there would need to be a material change to the Fed's baseline outlook.

How about a rate hike? The bar for such action has been raised even further. It has become increasingly apparent that a renewed rate increase is not on the Fed's radar. This is an important point. Following the solid November jobs report, there was some commentary that if the Phase 1 trade deal is reached with China then perhaps the FOMC's next move in 2020 would be to raise rates. For the record, I'm not in that camp. The Fed has been rather disappointed with the utter failure to hit its 2% inflation target. If anything, I would argue the policy makers may let things run hot before considering such a move.

Conclusion

The bottom line seems to be that the Fed will be on hold for the foreseeable future. The aforementioned employment data underscores the fact that the U.S. economy enjoys a firm labor market setting and plays right into the Fed's own outlook. In other words, there is no need for any further insurance. [Fed Funds Futures](#) do point toward a 2H 2020 rate cut, but I'm not there yet, especially if the economic data continues to come in as it has of late.

Unless otherwise stated, data source is Bloomberg, as of December 6, 2019.

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