

SITTING, WAITING, WISHING

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My, how things have changed in a relatively short period of time. As we finished off 2018 and entered the new calendar year, expectations for future [Federal Reserve \(Fed\)](#) policy actions were altered dramatically. Now, here we are in a wait-and-see mode as Chairman Jerome Powell and the rest of the [FOMC](#) appear to be taking a sitting, waiting and wishing approach toward [monetary policy](#).

The graph below highlights how the market's Fed expectations essentially have been dictated by what has occurred in the U.S. stock market over the last couple of months. As recently as November 8, [Fed Funds Futures](#) were pricing in the possibility of two [rate hikes](#) in 2019. While that was one less move than the Fed's own forecast at the time, it was still consistent with what the policy makers were also envisioning.

Then the stock market decided to take its selling pressure to another level. What began as a more moderate move off its highs in late September/early October turned into a rout from early November into the opening days of 2019. Not coincidentally, Fed Funds Futures followed the stock market's lead and, amazingly, turned "two rate hikes" into a "rate cut" as recently as January 3.

S&P 500 vs. Fed Funds Futures January 2020 Contract



Source: Bloomberg, as of 1/14/19. Past performance is not indicative of future results. You cannot invest directly in an index. Note: Left axis represents the S&P 500 (purple line); the right axis represents the Fed Funds Futures January 2020 contract (white line).

Since the first few trading sessions of the new year, the markets have received a rather robust jobs report combined with Fed-speak suggesting that the policy makers are not on some predetermined path to raise rates no matter what. Chair Powell has led the way on this front, emphasizing a patient, flexible approach to the decision-making process, one that has become data dependent. In addition, Powell and Co. have also mentioned they are paying attention to what the markets are saying but also acknowledging that they are more pessimistic than the Fed on the growth outlook, going as far as saying that the economy is "solid" and not predicting a [recession](#) in 2019.

Conclusion

So, as winter begins to move into full gear, we are left with no clear guidance but must also wait out economic data, and perhaps equally important, keep a close eye on the risk markets for any additional signals. As of this writing, Fed Funds Futures have bounced up a bit in [yield](#) and appear to be signaling no rate hikes from the Fed will be forthcoming this year. Here's food for thought: perhaps the Fed does take its time on the rate front because it still has its balance sheet operating in "roll-off" mode...just thinking out loud.

Unless otherwise stated, all data is from Bloomberg as of January 14, 2019.

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DEFINITIONS

Federal Reserve : The Federal Reserve System is the central banking system of the United States.

Federal Open Market Committee (FOMC) : The branch of the Federal Reserve Board that determines the direction of monetary policy.

Monetary policy : Actions of a central bank or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.

Fed fund futures : A financial instrument that let's market participants determine the future value of the Federal Funds Rate.

Rate Hike : refers to an increase in the policy rate set by a central bank. In the U.S., this generally refers to the Federal Funds Target Rate.

S&P 500 Index : Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

Recession : two consecutive quarters of negative GDP growth, characterized generally by a slowing economy and higher unemployment.

Yield : The income return on an investment. Refers to the interest or dividends received from a security that is typically expressed annually as a percentage of the market or face value.