Key takeaways from Fed rate cut

August 1, 2019

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It was no surprise that the Federal Reserve cut rates by 25 basis points. It is a surprise that it decided to end balance sheet normalization early.

There were two dissenters in today's decision, making it more difficult to cut rates again.

Fed Chair Powell said in the press conference that the "outlook remains favorable" – and therefore this move is intended to keep it that way (ounce of prevention worth pound of cure). He merely wants to defend and sustain the economic expansion.

Powell stressed the dichotomy between weak manufacturing and a strong consumer. It underscored how difficult it is to come up with an appropriate rate decision. That's why Powell characterized this as partially an insurance decision – intended to defend and sustain the economic expansion.

The key takeaway is that the trade wars can be very dangerous – and the Fed is realizing this. I have warned that markets weren't fully comprehending how negatively impactful they could be. It's not just the actual tariffs – it's more about the economic policy uncertainty they create, which tamps down business spending.

Rate cut is just an "adjustment"

One of the most important takeaways from the press conference: Powell suggested this rate cut is just an "adjustment" – it is not part of a trend. The narrative is clearly that this rate cut is simply a case of taking back last year's fourth rate hike. This is in keeping with the fact that there were very few changes between the June and July FOMC statements – labor market conditions were described as "strong" and economic growth was described as "moderate." The Fed is not on high alert – language changed from the Fed will "closely monitor" to the Fed will "continue to monitor" incoming data.

Market reaction

Stocks fell when Powell characterized the rate cut as an adjustment, rather than being part of a trend. However, I believe he had a loftier purpose in mind – I think he did that to push back on the White House and signal the Fed's independence. I believe that in his mind, a short-term sell-off was a small price to pay in order to assert the Fed's right to self-determination.

While stocks fell today, I think that will reverse in the coming days. Risk assets are likely to benefit from more accommodative monetary policy. And investors are likely to move out on the risk spectrum to reach for yield.

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