

- The long-awaited, highly anticipated Federal Open Market Committee (FOMC) meeting has come to an end. The Fed hiked rates to the range of 2.25% to 2.5% and lowered the expectations for 2019 to two hikes—equivalent to a 3% fed funds rate.
- This was exactly as expected with no (real) surprises whatsoever.
- When the Fed will hike rates in 2019 matters. And, on this and many other topics, there was little clarity.
- Following this meeting, it is unlikely the Fed will hike rates before late spring or early summer.

As was widely expected, the Federal Reserve raised its range for Fed funds to 2.25% to 2.5%, but simultaneously took down its outlook for future hikes. During the delivery of the policy decision via Chair Jerome Powell, something was lost in the translation and the market appears to have taken it as being hawkish. This seems to mostly be a communication issue. There are a couple of notable ways that Chair Powell could have communicated what was, at its heart, a rather dovish message. One way would have been to emphasize that two hikes in 2019 is an outlook, not a guarantee. Or that the "longer term" is now expected to be 2.75% again (hence the 10-year U.S. yield should settle around there). Either one says that the Fed has retraced some of its previous hawkishness.

With the dovish outlook and the potential that rate hikes will be loaded in the back-half of 2019, there is still a good chance that the Fed does not commit a true policy error (tightening too far, too fast). But the market does not believe that today. The easy formula for continuing to tighten is to pause, prime, repeat. That is still likely to be the case, and it was probably the message intended to be delivered today. Now it will take a few speeches from respected members of the FOMC to get some trust back and talk the market out of perceiving a policy error in the making. This might take some convincing, pushing rate hikes further out and a more finessed tone from the Fed. Chair Powell did not execute the press conference well today. For better or worse, there are eight press conferences in 2019, up from the four in 2018. There are more opportunities to communicate policy, but if those are anything like today that may not be a good thing.

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