Fed Cuts 25, but Offers Few Clues on Future Policy

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As expected, Fed officials announced a quarter point rate cut this afternoon, lowering the overnight target range to 4.50% - 4.75%. The Fed's official statement repeated that inflation and employment risks were "roughly in balance" although wording on both mandates were tweaked. Specifically, today's statement no longer indicates the committee had "gained greater confidence" that inflation is progressing toward its 2.0% target, and (despite an admittedly noisy October employment report) the Fed believes "labor market conditions have generally eased." One holdover phrase that seems certain to be a mainstay for the foreseeable future is: "*The economic outlook is uncertain*."

The financial markets didn't appear to react to the rate cut announcement or the slightly amended official statement. There was no summary of economic projections and no fresh dot plot this meeting, so there was little to digest initially.

Fed Chairman Jay Powell began the post-meeting press conference on a familiar path, emphasizing that the U.S. economy remains strong, labor conditions have slowed (but remain solid), and inflation has eased substantially. *All positive*. He added (once again) that future decisions will be data-dependent.

Reporters peppered the Fed Chairman with questions related to the Trump Administration's expected agenda and the committee's likely reaction. In response, Powell said the election results will have no effect on monetary policy, although he admitted implemented actions would likely affect the economy over time, and by extension future policy. Powell did not reply to other election-related questions or a question regarding the Fed's continued independence under the new administration.

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When asked if he would resign if asked to leave before his term is up in 2026, Powell was crystal clear in saying "no." He added that the President cannot legally remove a Fed Chairman.

Addressing a question about the recent rise in bond yields, Powell noted that the upward moves were less about rising inflation expectations and more about stronger economic growth. On the rapid increase in the national debt, Powell said it was both "unsustainable" and a "threat to the economy."

If investors had anticipated Powell would provide specific clues about future policy action, they were disappointed once again. The bond market, which had rallied pre-meeting, was unaffected by Powell's words, while stocks continued to climb higher on the Chairman's implied confidence in a soft-landing.

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Earlier today, the Bureau of Labor Statistics measure of third quarter productivity showed a +2.2% annualized gain, below the +2.5% median forecast. At the same time, the previous quarter reading was revised downward from +2.5% to +2.1%. Productivity measures output per hour worked. Higher productivity mitigates price pressure. During the past six quarters, enhanced automation has boosted output and helped tap down inflation. Although Q3 productivity growth fell short of forecast, it was still progressing at almost twice the 10-year pre-pandemic average.

Unit labor costs were the bigger surprise, rising at a +1.9% annualized pace in the third quarter, nearly doubling forecasts, while the previous quarter increase was revised sharply higher from +0.4% to +2.4%. The combination of lower-than-expected productivity and higher wages complicates Fed policy. If the trend continues, a quarter point cut next month becomes less likely.

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In other news, the Bank of England cut its key overnight rate by a quarter point from 5% to 4.75%, but expressed budget concerns and signaled future cuts would depend on the path of inflation.

Market Indications as of 3:01 P.M. Central Time

DOW	Down -1 to 43,729 (HIGH: 43,730)
NASDAQ	Up 286 to 19,269 (NEW HIGH)
S&P 500	Up 50 to 5,979 (NEW HIGH)
1-Yr T-bill	current yield 4.28%; opening yield 4.29%
2-Yr T-note	current yield 4.20%; opening yield 4.27%
3-Yr T-note	current yield 4.16%; opening yield 4.23%
5-Yr T-note	current yield 4.18%; opening yield 4.27%
10-Yr T-note	current yield 4.33%; opening yield 4.42%
30-Yr T-bond	current yield 4.54%; opening yield 4.59%

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