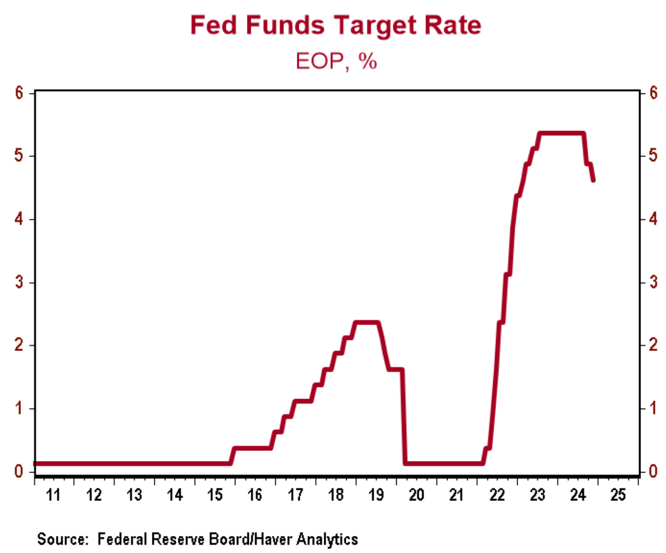
First Trust
ECONOMIC RESEARCH REPORT
Andrew Opdyke, CFA – *Senior Economist*
Robert Stein, CFA – *Dep. Chief Economist*
Brian S. Wesbury – *Chief Economist*
November 7, 2024 • 630.517.7756 • www.ftportfolios.com

Hold the Course

While investors and institutions were digesting the results of Tuesday's elections, the Fed was meeting to determine the path forward for rates. Following on the 0.5% (50 basis points) start in September, the Fed cut rates by a further 0.25% today and the markets are forecasting another cut to come in December, but the odds of that move have ticked lower.

Today's statement saw a few alterations from the September meeting, mostly notably removal of language that the "Committee has gained greater confidence that inflation is moving sustainably toward 2 percent" and a striking of language that previously highlighted "progress on inflation and the balance of risks". Powell was asked about these changes during today's press conference and made clear this was not a reflection of a weakening outlook, but rather a shift away from the forward guidance language that the Fed was using to signal the trigger to start rate cuts. Now that cuts have begun, the Fed no longer needs further confidence, but is focused instead on if the incoming data suggests any notable shifts on either inflation or employment as rate changes make their way through the system.



Inevitably, questions in the press conference moved towards the election results, and how the Fed will respond to the increased likelihood of tax cuts and higher tariffs which could impact the path of inflation. In short, Powell stated that the election results have no impact on their short-term views. The Fed does not know what – or when – policy changes will be implemented under the new administration and has no plans to speculate. When policy changes arrive, the Fed will model for projected impacts, but they are just one piece in a dynamic economy. In the meantime, the Fed plans to move carefully and patiently.

While the Fed continues to look at the same inflation metrics that caused it to first miss the rise in inflation following COVID, and then overestimate the pace at which inflation would come back to trend, we believe the money supply remains the single most important indicator on inflation's path forward. The M2 measure of money has been rising at a gradual pace after falling into contraction territory for much of 2022-23, and how M2 growth progresses from here will dictate if the Fed has room for further rate cuts or sees a re-acceleration of inflation as was seen when the Fed declared a premature victory on inflation back in the 1970's.

If M2 growth remains modest, both inflation and economic growth will slow, but the Fed will have room to continue cuts. If, however, rate cuts lead to a rapid rise in M2 growth, the Fed has shown an active neglect of the warning signs that would have preempted this inflation debacle to begin with. We will continue to watch – and report – on the money supply, and the ongoing ramifications it has on the economy as a whole.

Brian S. Wesbury, *Chief Economist*
Robert Stein, *Deputy Chief Economist*

Text of the Federal Reserve's Statement:

Recent indicators suggest that economic activity has continued to expand at a solid pace. Since earlier in the year, labor market conditions have generally eased, and the unemployment rate has moved up but remains low. Inflation has made progress toward the Committee's 2 percent objective but remains somewhat elevated.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. The Committee judges that the risks to achieving its employment and inflation goals are roughly in balance. The economic outlook is uncertain, and the Committee is attentive to the risks to both sides of its dual mandate.

In support of its goals, the Committee decided to lower the target range for the federal funds rate by 1/4 percentage point to 4-1/2 to 4-3/4 percent. In considering additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities. The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of *incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments.*

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Thomas I. Barkin; Michael S. Barr; Raphael W. Bostic; Michelle W. Bowman; Lisa D. Cook; Mary C. Daly; Beth M. Hammack; Philip N. Jefferson; Adriana D. Kugler; and Christopher J. Waller.