

# Fed cuts rates by a quarter percentage point

Rate cut seen as preventative medicine in the face of global uncertainties.

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Federal Reserve Chair Jerome Powell announced a quarter point reduction in the federal funds rate to conclude the Fed's July meeting. The Federal Open Market Committee voted 8-2 to reduce the benchmark rate to a target range of 2.00% to 2.25%, marking the first rate cut in more than a decade. Citing disappointing global growth, inflation expectations below the Fed's 2% target, trade tensions and declining U.S. manufacturing as reasons to provide monetary policy "insurance," the Fed Chair opened the door for additional reductions. He defined today's cut as a "mid-cycle adjustment to policy."

The Fed stopped short of a 50 basis point cut that some had expected, likely due to strong reports on U.S. employment and retail sales. The Fed also has opted to end its balance sheet reduction two months earlier than planned. Continuing balance sheet drawdowns (an effective tightening of monetary policy) was likely viewed as inconsistent with lowering the fed funds rate (easing monetary policy).

While Powell did not suggest this was a "one and done" cut, there was no overt messaging that a September cut is guaranteed—or that this rate cut was necessarily the

start of an easing cycle. The stock market seemed disappointed with Powell's performance, suggesting that the market may believe the Fed will move too slowly to prevent the global growth slowdown from infecting the U.S. Following the announcement, stocks sold off, the yield curve flattened dramatically, credit spreads widened and the dollar climbed. U.S. Treasuries saw yields drop several basis points in anticipation of increased Fed purchases due to the immediate stabilization of the Fed's balance sheet.

President Trump's incessant demands for a large rate cut also may have made it more difficult for the central bank to cut more than 25 basis points today. The Fed may have feared that a larger cut would create the impression that the Fed was acquiescing to pressure from the White House.

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