

Fed Holds Steady and Confirms Economy Is Improving

MARKET COMMENTARY

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AS EXPECTED, THE FEDERAL OPEN MARKET COMMITTEE (FOMC) MADE NO CHANGES TO THE FED FUNDS RATE, leaving it unchanged at a range of 1.00% to 1.25%. The FOMC further acknowledged that economic growth has been solid despite hurricane-related disruptions. We expect the Fed to continue on its slow path of normalization by continuing its balance sheet roll-off and slowly raising rates.

Key Points

- As expected, the Fed kept the fed funds rate at a range of 1.00 to 1.25%.
- The Fed acknowledged that economic growth has been rising at a solid rate despite hurricane-related disruptions. The Fed expects that these disruptions, as well as subsequent rebuilding, will continue to affect growth, employment and inflation in the near term.
- On inflation, the Fed noted that gasoline prices rose in the aftermath of the hurricanes. However, inflation for items other than food and energy remained soft.
- The Fed continues to see the risk to the economic outlook as roughly balanced, but said it will continue to closely monitor inflation developments.

Market Implications: Our View

- The Fed has a desire to continue to normalize Fed policy through increasing the fed funds rate and reducing the size of its balance sheet.
- Balance sheet roll-off should proceed according to the schedule outlined by the Fed, whereas the fed funds hike pace will be highly dependent on inflation outcome in the coming months.
- The market is pricing in about an 87% chance of a 3rd 2017 hike at the December meeting. ■



Tony Rodriguez

*Co-Head of Fixed Income
Nuveen Asset Management, LLC*



John V. Miller

*Co-Head of Fixed Income
Nuveen Asset Management, LLC*

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The **Federal Open Market Committee (FOMC)** holds eight regularly scheduled meetings per year to review economic and financial conditions, determine the appropriate stance of monetary policy and assess the risks to its long-run goals of price stability and sustainable economic growth.

A **basis point** is a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01% (0.0001).

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SOURCES

Federal Reserve Statement, November 2017.

Bloomberg.

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