

Market Bulletin

December 19, 2018

The Fed: One hike and a flock of dovish signals

The Federal Reserve (Fed) raised its target for the federal funds rate to a range of 2.25%- 2.50% today. This was widely anticipated until recent market volatility and concerns over economic growth had markets uncertain about the Fed's next move. Yet, the Federal Open Market Committee (FOMC) statement highlighted the strengthening labor market and economic activity, in particular job gains and household spending.

- The FOMC released its economic projections, lowering expectations for real GDP growth to 3.0% from 3.1% for 2018, and to 2.3% from 2.5% for 2019. However, its long-run projection inched up to 1.9%. This reflects a likely moderation in near-term economic growth after an acceleration in Q2 and Q3 of this year. The unemployment rate is expected to be slightly higher in 2020 and 2021 than previously projected, although slightly lower in the long-run.
- Inflation expectations also came down for 2018 and 2019 to 1.9%, from 2.1% and 2.0% respectively. Personal consumption expenditures (PCE) through October was 2.0% and core PCE was 1.8%, so these projections align more closely with the current conditions, which have been remarkably stable. Given the recent drop in oil prices, there are few reasons to question the Fed's confidence in low and stable inflation in the medium term.
- In its interest rate projections, the FOMC were more dovish. Investors should expect two rate hikes in 2019, as noted by Fed Chairman Jay Powell, who said they "now think it is more likely the economy will grow in a way that calls for two rate increases next year." Federal funds rate projections came down for the future, dropping to 3.1% from 3.4% in 2020 and 2021, and down to 2.8% from 3.0% in the long-run. This adjustment reflects fewer anticipated rate hikes.
- Finally, the interest rate on excess reserves was raised by 20 basis points to 2.4%, just under the higher bound of the federal funds target range. By raising this rate by only 20 basis points rather than 25 basis points, this effectively narrows the range of the federal funds rate. This rate was last adjusted this summer.



Dr. David P. Kelly, CFA
Chief Global Strategist

MARKET INSIGHTS

While equity markets initially reacted negatively to the Fed's actions, their caution and flexible policy approach combined with a lack of inflation pressures this late in the economic expansion are both long-term positives for U.S. stocks.

EXHIBIT 1: FOMC SEPTEMBER 2018 FORECASTS

Percent	2018	2019	2020	2021	Long Run
Change in real GDP, Q4 to Q4	3.0	2.3	2.0	1.8	1.9
September Forecast	3.1	2.5	2.0	1.8	1.8
Unemployment Rate, Q4	3.7	3.5	3.6	3.8	4.4
September Forecast	3.7	3.5	3.5	3.7	4.5
PCE Inflation, Q4 to Q4	1.9	1.9	2.1	2.1	2.0
September Forecast	2.1	2.0	2.1	2.1	2.0
Federal Funds Rate, end of year	2.4	2.9	3.1	3.1	2.8
September Forecast	2.4	3.1	3.4	3.4	3.0

Source: Federal Reserve, J.P. Morgan Asset Management. Data as of December 19, 2018 *Forecasts of 16 FOMC participations, median estimate. **Green denotes an adjustment higher, red denotes an adjustment lower.

The Market Insights program provides comprehensive data and commentary on global markets without reference to products. Designed as a tool to help clients understand the markets and support investment decision-making, the program explores the implications of current economic data and changing market conditions.

For the purposes of MiFID II, the JPM Market Insights and Portfolio Insights programs are marketing communications and are not in scope for any MiFID II / MiFIR requirements specifically related to investment research. Furthermore, the J.P. Morgan Asset Management Market Insights and Portfolio Insights programs, as non-independent research, have not been prepared in accordance with legal requirements designed to promote the independence of investment research, nor are they subject to any prohibition on dealing ahead of the dissemination of investment research.

This document is a general communication being provided for informational purposes only. It is educational in nature and not designed to be used as advice or a recommendation for any specific investment product, strategy, plan feature or other purpose in any jurisdiction, nor is it a commitment from J.P. Morgan Asset Management or any of its subsidiaries to participate in any of the transactions mentioned herein. Any examples used are generic, hypothetical and for illustration purposes only. This material does not contain sufficient information to support an investment decision and it should not be relied upon by you in evaluating the merits of investing in any securities or products. In addition, users should make an independent assessment of the legal, regulatory, tax, credit, and accounting implications and determine, together with their own professional advisers, if any investment mentioned herein is believed to be suitable to their personal goals. Investors should ensure that they obtain all available relevant information before making any investment. Any forecasts, figures, opinions or investment techniques and strategies set out are for information purposes only, based on certain assumptions and current market conditions and are subject to change without prior notice. All information presented herein is considered to be accurate at the time of production, but no warranty of accuracy is given and no liability in respect of any error or omission is accepted. It should be noted that investment involves risks, the value of investments and the income from them may fluctuate in accordance with market conditions and taxation agreements and investors may not get back the full amount invested. Both past performance and yields are not reliable indicators of current and future results.

J.P. Morgan Asset Management is the brand for the asset management business of JPMorgan Chase & Co. and its affiliates worldwide. To the extent permitted by applicable law, we may record telephone calls and monitor electronic communications to comply with our legal and regulatory obligations and internal policies. Personal data will be collected, stored and processed by J.P. Morgan Asset Management in accordance with our [Company's Privacy Policy](#). For further information regarding our regional privacy policies please refer to the [EMEA Privacy Policy](#); for locational Asia Pacific privacy policies, please click on the respective links: [Hong Kong Privacy Policy](#), [Australia Privacy Policy](#), [Taiwan Privacy Policy](#), [Japan Privacy Policy](#) and [Singapore Privacy Policy](#).

This communication is issued by the following entities: in the United Kingdom by JPMorgan Asset Management (UK) Limited, which is authorized and regulated by the Financial Conduct Authority; in other European jurisdictions by JPMorgan Asset Management (Europe) S.à r.l.; in Hong Kong by JF Asset Management Limited, or JPMorgan Funds (Asia) Limited, or JPMorgan Asset Management Real Assets (Asia) Limited; in Singapore by JPMorgan Asset Management (Singapore) Limited (Co. Reg. No. 197601586K), or JPMorgan Asset Management Real Assets (Singapore) Pte Ltd (Co. Reg. No. 201120355E); in Taiwan by JPMorgan Asset Management (Taiwan) Limited; in Japan by JPMorgan Asset Management (Japan) Limited which is a member of the Investment Trusts Association, Japan, the Japan Investment Advisers Association, Type II Financial Instruments Firms Association and the Japan Securities Dealers Association and is regulated by the Financial Services Agency (registration number "Kanto Local Finance Bureau (Financial Instruments Firm) No. 330"); in Australia to wholesale clients only as defined in section 761A and 761G of the Corporations Act 2001 (Cth) by JPMorgan Asset Management (Australia) Limited (ABN 5143832080) (AFSL 376919); in Brazil by Banco J.P. Morgan S.A.; in Canada for institutional clients' use only by JPMorgan Asset Management (Canada) Inc., and in the United States by JPMorgan Distribution Services Inc. and J.P. Morgan Institutional Investments, Inc., members of FINRA; and J.P. Morgan Investment Management Inc.

In APAC, distribution is for Hong Kong, Taiwan, Japan and Singapore. For all other countries in APAC, to intended recipients only.

Copyright 2018 JPMorgan Chase & Co. All rights reserved.

Material ID: 0903c02a8247fca4