Weekly Market Summary

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Fed Upgrades Economic Outlook….. Rates Left Unchanged for Now

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Investors who expect a rate hike later this year should keep expecting one! However to all those firmly in the camp looking for a quick move up in US short term rates to 3.00%, better think twice !!

That is basically the message from the Federal Open Market Committee on Wednesday evening. It decided to leave interest rates unchanged, as was widely expected. Nonetheless - in what could have been the most exciting Fed meeting of the year – Fed Chair Yellen & Co. decided instead to stay the course, releasing a "boring" statement that did not deviate much from prior ones and confirmed that interest rates will remain near zero at least until the Board's July meeting and more likely until September, whilst rates gradually move higher afterwards.

Still, the monetary policy statement released at the conclusion of the FOMC's two-day meeting noted some improvement in the economy over the first quarter. "*Information received since the Federal Open Market Committee met in April suggests that economic activity has been expanding moderately after having changed little during the first quarter… The pace of job gains picked up while the unemployment rate remained steady... On balance, a range of labor market indicators suggests that underutilization of labor resources diminished somewhat… Growth in household spending has been moderate and the housing sector has shown some improvement*", the FOMC confirmed.

As we pointed out the day prior to the FOMC meeting, all market attention was on the so-called Fed Dot Plot, which indicates where individual Fed officials see Fed Funds in the future (year-end 2015, 2016 & 2017). The mid-point of the FOMC members' projections for the Fed funds rate was steady at 0.625% at the end of 2015 but fell to 1.625% at the end of 2016 (from 1.875% in their previous March forecast) and 2.875% at the end of 2017 (down from 3.125%). Of the 17 participants 15 said it would be appropriate to start firming monetary policy this year which gives them four meetings to act. The Dot Plot also strengthened the Fed's commitment to adjust rates slowly once it does act, since it would take roughly two 0.25% moves to get from the current target rate of 0% to 0.25% to 0.625% by the end of the year. Seven members expect just a single hike this year.

In a press conference following the release, Janet Yellen reiterated that rate changes will be considered on a "*meeting-by-meeting basis*". "*Compared with the projections made in March, most FOMC participants lowered somewhat their paths for the Federal funds rate consistent with the revisions made to the projections for GDP growth and the unemployment rate. The median projection for the Federal funds rate continues to point to a first increase later this year*", Yellen noted. Beyond that first hike, Yellen pointed out that "*we absolutely do not expect to follow any mechanical 25 basis points a meeting, 25 basis points every other meeting. We have no plan to follow any type of mechanical approach to raising the Federal funds rate.*"

Treasuries were trading lower in advance of the release, but immediately rallied on the news. The yield on the benchmark 10-year bond had climbed to 2.39% during the Wednesday afternoon session, but fell to 2.29% by the end of the trading day. U.S. equity markets, which had turned negative around midday and regained some in the moments leading up to the release, returned to positive following the Fed release. The S&P 500, the Dow Jones Industrial Average and the NASDAQ Composite were all up around 0.2% at the close. The US dollar fell to a one-week low versus the Euro, with the latter trading to a high of 1.1375 (a full 1.5 big figure above the 1.1240 prior to the Fed announcement).

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