

[theme music]

A dark background with financial graphs, the words 'FOMC' with money graphics across it scrolls across the screen in segments. FOMC graphic then scales down to the full title in blue that reads, 'FOMC UPDATE'. Scene fades to black.

A male host named Tim Sustak stands in front of two bookcases with various books and decorations on them. Below him is a gray graphic with a blue border on top and white letters that reads, 'Federal Open Market Committee Update- Tim Sustak Chief Credit Officer February 2, 2023.

Tim: Hi, I'm Tim Sustak, chief credit officer with Vizo Financial, and this is your FOMC update for the January/February 2023 meeting.

Tim: At its latest meeting, the FOMC chose to raise the target fed funds range 25 basis points to a level of 4.50 to 4.75 percent, and they also increased the rate on reserve balances by 25 basis points to a level of 4.65 percent. The decision to raise rates was a unanimous one, and was broadly expected by the markets. There were a few changes to the post meeting statement other than the level of rates. The FOMC acknowledged that inflation has "eased somewhat", and the language around the war in Ukraine was adjusted a bit to simply say it was adding to "global uncertainty" rather than "contributing to upward pressure on inflation."

Tim: References to the pandemic as a cause for inflation and as a consideration for the committee when assessing the path for interest rates were removed. Probably the biggest change was the exchange of the word "pace" for "extent" when talking about future rate increases, which would seem to imply that the FOMC believes 25 basis point increments are the expected size of any future rate increase until they pause. The question now is when will the FOMC pause? There was no mention of that in the statement, only that the committee believes that ongoing increases will be necessary in its inflation fight. We'll see if Chair Powell gave us any further information on when the FOMC might pause its rate hikes in his post meeting press conference, after the break.

Scene fades to black

[jazz music playing]

Various shots of people talking and drinking wine. Shots of people playing saxophones.

Golden star graphics with white words that read 'Vizo Financial GAC Reception 2023!'

Shot of wine glasses. Shot of a jazz band with the words, 'Live Music by Gatsby Gang Jazz Band' in white.

Green background with the words, 'February 26, 2023 Henley Park Hotel 5:30 - &:30 926 Massachusetts Ave. NW, Washington, D.C.' in white.

Cartoon character of a women in costume dancing over words, '#MardiParty'

Various shots of people talking and drinking. Words, 'RSVP at: www.vfccu.org' in white.

Screen fades to black

Tim: Welcome back! In his post meeting press conference, Chair Powell said the U.S. economy slowed significantly last year as GDP rose at a below trend pace of 1%. Though the economy slowed, he also indicated the labor market remains extremely tight with unemployment at a 50-year low, job vacancies high, and wage growth elevated. In addition, inflation remains well above the committee's 2% longer run goal with total PCE rising 5%, and core PCE rising 4.4% for the 12-months ending in December. The encouraging news is that there has been a reduction in the monthly pace of price increases given information received over the past three months. Chair Powell explained that the effect of policy actions is being felt by the most interest sensitive sectors of the economy, such as housing, but it will still take some time for the full effect of monetary policy to be felt on the whole of inflation. Given that the committee recognizes this lag, they chose to raise the fed funds rate in a smaller increment of 25 basis points at this meeting, as a slower pace of increases will better allow the committee to assess the impact of its policy decisions.

Tim: In the post conference question and answer session, Chair Powell further discussed where the committee believes it is in the rate hike cycle, and indicated that the committee currently felt it would take a couple more hikes to get rates restrictive enough where they can pause. Further, he indicated that though the committee will pause, there is no thought at this point that a rate cut will be appropriate in 2023. He said the disinflationary process is in its early stages, so it is still hard to predict the future of rates with any certainty as there is no precedent for the current economic situation. When asked if it bothered him that the markets are projecting only one more rate hike while the Fed is anticipating more, he said that he is not bothered by it as the markets have a different projection for inflation and time will tell which projection holds true. He believes the risk is still in doing too little to fight inflation rather than doing too much. Chair Powell also indicated the committee is encouraged that inflation expectations are well anchored in the short and long term.

Tim: So, the Fed struck a bit of a softer tone given inflation is starting to go the right way, but there was absolutely no indication that a rate cut is on the Fed's radar in 2023. The Fed believes it still has work to do to fight inflation, but they also realize that no one's crystal ball is perfect and they will adapt monetary policy based on the incoming data. It seems we are fairly close to the top of the hill regarding the current series of rate hikes, but as of now it looks like there is still some distance to the downhill side. That's the FOMC update for February. Thanks for watching and be well!

White screen with blue, red and green paint splashing together to form Vizo Financial logo. Logo fades to a green Vizo Financial logo 'V', a red heart and the words, "CUs" in green on a light gray background. Dark gray words appear underneath that read, 'A Vizo Financial Production'

Logo fades out and disclaimer text appears on screen.

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