

[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 Treasury Officer May 2, 2024.'

Tim: Hi, I'm Tim Sustak, chief treasury officer with Vizo Financial, and this is your FOMC update for the April/May 2024 meeting.

Tim: At its latest meeting, the FOMC chose to leave the target fed funds range unchanged, at a level of 5.25 to 5.50 percent, and they also maintained the rate on reserve balances at a level of 5.40 percent. The decision was a unanimous one and was expected by the marketplace. The post meeting statement had two important changes to note. First, the Fed acknowledged that there has been a lack of further progress over the past few months towards the committee's 2% inflation goal. This is no surprise for anyone following the economic data. The other change was regarding the Fed's balance sheet runoff. The committee indicated that beginning in June of this year, it would slow its balance sheet runoff by lowering the monthly redemption cap on Treasury securities from \$60 billion to \$25 billion. It will maintain the cap on mortgage-backed securities at \$35 billion, but reinvest any principal payments above the cap into Treasury securities. We'll see if Chair Powell gave us any additional information about the change in balance sheet runoff and future rate strategy, in his press conference, after the break.

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Tim: Welcome back! Chair Powell started the press conference with his prepared remarks. He said that the restrictive stance of monetary policy has been putting downward pressure on economic activity and inflation, and that risks have moved into better balance, though in recent months inflation has shown lack of further progress toward the committee's 2% goal. He indicated that the economy has continued to expand at a solid pace, consumer spending has been robust, the labor market remains relatively tight though conditions have come into better balance, and inflation has eased notably over the past year but is still above the longer run goal of 2 percent.

Tim: He said given recent inflation readings, it is likely to take longer to achieve the confidence the committee needs to cut rates, and the committee is prepared to maintain the current target range for as long as it is appropriate. Regarding the adjustment to balance sheet runoff, he indicated that the adjustment is designed to reach the same goal but at a more gradual pace. This will help ensure a smooth transition, reducing stress on money markets, while still allowing securities holdings to reach a level consistent with the appropriate level of ample reserves.

Tim: In the Q and A session, Chair Powel answered a variety of questions around rates and various outcomes given the evolution of the economy. He said the committee feels that a quarter's worth of data is enough to take a signal from the numbers. That is why they believe the past quarter's inflation numbers signal that it will take longer than anticipated to gain confidence that inflation is on a steady path to 2% which will allow them to cut rates. He was steadfast that the committee is not satisfied with inflation around 3%, and that they are committed to bringing inflation down to 2% over time. He said he believes the current policy stance is restrictive enough to do the job, and it is unlikely that the next rate policy move will need to be a hike. However, he indicated many times, as in the past, that the totality of economic data over time will determine the path of rate policy. When asked if the election year figured into the committee's thinking, he was adamant that the committee never considers elections when determining policy, and said that they will always do the right thing for the economy without considering other factors.

Tim: So, balance sheet runoff has changed a bit and inflation remains a thorn in the committee's side. The likelihood of rate cuts this year has certainly gone down given current information, but there is a lot of economic data to come yet this year so things certainly could change. None of us know the future of the economy, but the Fed remains on message that the economic data will determine policy. Given that, time spent reviewing the data is probably worth more than time spent reading speculation from the marketplace. That's the FOMC update for May. 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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