

Market Update – Part 2: 12/16/2015 – Fed Press Conference Snippets

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Federal Reserve Bank Chair Janet Yellen just wrapped up her press conference – spending just over an hour in the delivery of some prepared remarks and responding to questions from a select group of financial reporters.

Below, in my opinion, are the most substantive points offered by Chairwoman:

- ***“Economy [is] on a path of sustainable improvement.”***
- ***“Fed’s decision today reflects confidence in US economy.”***
- ***“[Financial] conditions are strengthening and job market prospects will be good.”***
- ***“We have very low rates and we made a very small move.”***
- ***“If we analyze transitory inflation data, I do not want to say that we’ll respond to that.”***

This last quote was an answer to a question regarding just how low the price of a barrel of oil can drop before the Fed alters its argument that inflation, while sedate at the moment, is latent and it is sensible to be anticipatory of its arrival by slightly raising rates.

All in all, our initial reaction is one of relief. The Fed has maintained an extraordinarily accommodative monetary policy posture (kept rates very low) since the depths of the financial crisis.

We think that much improvement has taken place in the domestic economy since that time and the attendant monetary policy should be reflective of that progression.

It seemed that there was evidence of diminishing returns to the benefits of maintaining the prior posture, for instance: loan demand was not accelerating feverishly (if at all), savers were not saving less because rates were at punishingly low levels and the US dollar had begun appreciating in earnest against other currencies.

In addition, very anecdotally, the build-up to this moment when the Fed actually raised interest rates - for the first time in almost 10 years – has made the Star Wars hype seem mild. Monetary policy is not conducted in a binary fashion – it is a process and as Chair Yellen stressed in her prepared remarks:

“The [Federal Open Market] committee expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate. The actual path of the federal funds rate will depend on the economic outlook as informed by incoming data.”

We'll keep you as closely informed as the data informs the Fed.

Have a great evening, dc

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