

Fed Holds Rates Unchanged, Takes More Dovish Stance

June 20, 2019

KEY POINTS:

- The U.S. Federal Reserve keeps short-term interest rates steady, while signaling less patience on future rate cuts.
- Investors should focus on companies with organic cash flow, modest leverage, says Eagle Asset Management Fixed Income Team

With the Federal Reserve signaling an even more dovish posture ahead, it's clear "the market is dictating monetary policy," said James Camp, CFA, Managing Director of Fixed Income and Strategic Income at Eagle Asset Management.

As was widely anticipated, the Fed maintained the Fed funds rate in the 2.25 percent to 2.50 percent range at the latest Federal Open Market Committee (FOMC) meeting. The bigger story is the Fed's language on potential changes in monetary policy. The Fed turned markedly more dovish than in its previous two meetings. The word "patience" was removed from Federal Reserve Chairman Jay Powell's commentary on the stance on rates, and "solid" was replaced with "moderate" when talking about the strength of the economy.

Heading into the meeting, the market had priced in three interest rate cuts as being the most likely outcome by year end. Post-meeting, current market-implied odds for a 0.25 percent cut in July stand at 100 percent.

What does this mean for investors? Historical evidence is mixed on the efficacy of rate cuts in reversing a slowing economy, particularly when the slowdown is not driven by tighter financial conditions.

"While the market may bully the Fed into a cut in July, providing tailwinds for equities, it will be interesting to watch the long-term trend," Camp said. "The recent slowdown in global economic data has largely been driven by slowing demand and tariff concerns, not an extreme overshoot on monetary policy. Rate cuts alone may be ineffective to spur economic growth."

It must be noted that the Fed will have fewer policy tools to combat any potential economic slowdown when rates are at very low levels to begin with. This is not to say a recession is imminent. Other central banks around the globe have shifted far more dovish in recent months, and the hope is that the cumulative effect will prolong the record expansion. Eagle's Fixed Income Team believes that clients should stay vigilant in terms of credit quality and should own individual securities.

"The Fed has caved to market demands, which should be supportive to capital markets in the near term. Without a material uptick in inflation and global economic data, we think the Fed's hands are tied," observed the Eagle Fixed Income Team. "At face value, this should be seen as supportive of risk assets, but the underlying reasons for the Fed pivot are not all that encouraging. Investors should focus on companies with organic cash flow, modest leverage, and prudent capital allocation plans."

“ While the market may bully the Fed into a cut in July, providing tailwinds for equities, it will be interesting to watch the long-term trend. ”

- James Camp, CFA

About Carillon Tower Advisers

Carillon Tower Advisers is a global asset management company that combines the exceptional insight and agility of individual investment teams with the strength and stability of a full-service firm. Together with our partner affiliates – ClariVest Asset Management, Cougar Global Investments, Eagle Asset Management, Reams Asset Management (a division of Scout Investments) and Scout Investments – we offer a range of investment strategies and asset classes, each with a focus on risk-adjusted returns and alpha generation. Carillon Tower believes providing a lineup of institutional-class portfolio managers, spanning a wide range of disciplines and investing vehicles, is the best way to help investors seek their long-term financial goals.

About Eagle Asset Management

Eagle Asset Management provides a broad array of fundamental equity and fixed-income strategies designed to meet the long-term goals of institutional and individual investors. Eagle's multiple independent investment teams have the autonomy to pursue investment decisions guided by their individual philosophies and strategies.

Past performance does not guarantee future results. This information is intended solely to report on investment strategies as reported by Eagle Asset Management. Opinions and estimates offered constitute Eagle's judgment and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions.

This information is not intended to serve as investment, tax, legal or accounting advice. It should not be considered a recommendation to engage in or refrain from taking a particular course of action and is not an endorsement, recommendation or sponsorship of any securities, services or other investment property. It has been prepared for informational purposes only and you should consult your own investment, tax, legal and/or accounting advisors before engaging in any transaction. The opinions expressed are those of the author(s) and do not necessarily reflect the views of the firm, its clients or any of its or their respective affiliates. Views expressed are as of the date indicated and may change based on market and other conditions. The accuracy of the content and its relevance to your particular circumstances is not guaranteed.

Learn more about our fixed income investment solutions at eagleasset.com

Financial professionals: 1.800.237.3101 | Investing public: contact your financial advisor