Fed Statement a Near-Term Positive for Markets

The Fed announced today that it decided at its meeting this week not to raise interest rates and to patiently assess the need for future rate hikes. In addition, a separate statement was made regarding the handling of the Fed's balance sheet, as the Fed seeks to reduce the size of the balance sheet over time. The major concern from investors with regard to the balance sheet is that the Fed has been limiting its flexibility to slow down the unwind, putting the reductions on "autopilot." Essentially, this would take away one method for stabilizing the economy and asset prices if economic conditions continued to weaken. Additionally, with some parts of the yield curve nearly flat in recent months, the markets fear that a tone deaf response by the Fed when it comes to interpreting market signals could push the economy into recession.

While Fed independence is vital to the well-being of financial markets, it is promising to see it acknowledging the clear signals being sent by the markets that the global economy is no longer running red hot. Its flexibility around the size of the balance sheet and the securities comprising the balance sheet is also a good thing. Fed Chairman Jay Powell acknowledged in a question from a member of the media that the rhetoric around a slowing global economy has held steady, citing China in particular and the implications that a slowdown there could have on the United States. The initial response by the markets today has been positive, but these issues are likely to be huge drivers of market performance in 2019.

Matthew Rubin
Chief Investment Officer
mrubin@matrixpcg.com

Ryan Tunnell, CFA
Director of Investments
rtunnell@matrixpcg.com

New York (HQ)
400 Park Avenue, 6th Floor
New York, NY 10022

Chicago
444 W. Lake Street, Suite 1900
Chicago, IL 60606

Los Angeles
10250 Constellation Boulevard
Los Angeles, CA 90067

Palm Beach
101 Northpoint Parkway
West Palm Beach, FL 33407

Pittsburgh
409 Broad Street, Suite 200
Sewickley, PA 15143

212.254.4876
info@matrixpcg.com
matrixpcg.com

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PRIVATE CAPITAL GROUP