The following are excerpts from three online articles which report on the latest Federal Reserve meeting and its reasons for the decision to cut interest for the first time in 4 years . All content is referenced in detail below.

This week's news covers one dominant story- the latest Federal Reserve interest rate decision. The news highlights the view that this latest action reflects the Fed's belief that inflation will soon become a thing of the past, and that steps are necessary to bolster the labour market.

Fed slashes interest rates by a half point, an aggressive start to its first easing campaign in four years.

CNBC (2024) reports that The Federal Open Market Committee chose to lower its key overnight borrowing rate by a half percentage point, or 50 basis points, amid signs that inflation was moderating and the labour market was weakening. It was the first interest rate cut since the early days of the Covid pandemic.

The Federal Reserve on Wednesday enacted its first interest rate cut since the early days of the Covid pandemic, slicing half a percentage point off benchmark rates in an effort to head off a slowdown in the labor market. With both the jobs picture and inflation softening, the central bank's Federal Open Market Committee chose to lower its key overnight borrowing rate by a half percentage point, or 50 basis points, affirming market expectations that had recently shifted from an outlook for a cut half that size.

Outside of the emergency rate cuts during Covid, the last time the FOMC cut by half a point was in 2008 during the global financial crisis. The decision lowers the federal funds rate to a range between 4.75%-5%. While the rate sets short-term borrowing costs for banks, it spills over into multiple consumer products such as mortgages, auto loans and credit cards.In addition to this reduction, the committee indicated through its "dot plot" the equivalent of 50 more basis points cut by the end of the year, close to market pricing. The matrix of individual officials' expectations pointed to another full percentage point in cuts by the end of 2025 and a half-point in 2026. In all, the dot plot shows the benchmark rate coming down about 2 percentage points beyond Wednesday's move.

The Committee has gained greater confidence that inflation is moving sustainably toward 2 percent, and judges that the risks to achieving its employment and inflation goals are roughly in balance," the post-meeting statement said.

CNBC (2024)

CNBC (2024) notes that the decision to ease came "in light of progress on inflation and the balance of risks." The move helps settle a contentious debate over how forceful the Fed should have been with the initial move and reiterates its commitment not to 'lag behind'.

The FOMC vote came by an 11-1 vote and officials lowered the inflation outlook to 2.3% from 2.6% previous. On core inflation, the committee took down its projection to 2.6%, a 0.2 percentage point reduction from June. The committee expects the long-run neutral rate to be around 2.9%, a level that has drifted higher as the Fed has struggled to get inflation down to 2%. The decision comes despite most economic indicators looking fairly solid.

The Fed's goal now is to keep inflation stable while simultaneously ensuring jobless rates don't tick higher, according to Fed Chair Jerome Powell. "We're trying to achieve a situation where we restore price stability without the kind of painful increase in unemployment that has come sometimes with disinflation," he said in the post-meeting press conference.

Powell added that investors should take the Fed's 50 basis-point rate cut as a sign of its "strong commitment" toward achieving that goal.

Gross domestic product has been rising steadily, and the Atlanta Fed is tracking 3% growth in the third quarter based on continuing strength in consumer spending. Moreover, the Fed chose to cut even though most gauges indicate inflation well ahead of the central bank's 2% target. The Fed's preferred measure shows inflation running around 2.5%, well below its peak but still higher than policymakers would like.This Fed rate-cut sets the stage for future questions over how far the central bank should go before it stops cutting. There was a wide dispersion among members for where they see rates heading in future years. Investors' conviction on the move vacillated in the days leading up to the meeting. Over the past week, the odds had shifted to a half-point cut, at 63% for 50 basis points just prior to the decision coming down, according to the CME Group's FedWatch gauge.

'We are not going back' to world of ultra-low interest rates'.

Federal Reserve Chair Jerome Powell does not expect the era of cheap money to return.

"Intuitively, most — many, many people anyway — would say we are probably not going back to that era where there were trillions of dollars of sovereign bonds trading at negative rates, long-term bonds trading at negative rates," he said. "My own sense is that we are not going back to that," Powell added. He feels the neutral rate is likely significantly higher than it was back then, although he does not know yet how high it is.

With the Fed at the center of global financial universe, Wednesday's decision likely will reverberate among other central banks, several of whom already have started cutting. The factors that drove global inflation higher were related mainly to the pandemic – crippled international supply chains, outsized demand for goods over services, and an unprecedented influx of monetary and fiscal stimulus. The Bank of England, European Central Bank and Canada's central bank all have cut rates recently, though others awaited the Fed's cue.

CNBC (2024)

Federal Reserve cuts interest rates by half a percentage point, stocks end lower

This latest move by the Fed, according to Yahoo Finance (2024), demonstrates its clear objective to restore price stability without the kind of painful increase in unemployment that has sometimes come with disinflation. Chair Jerome Powell added that investors should take the Fed's 50 basis-point rate cut as a sign of its "strong commitment" toward achieving that goal. However, investors should not assume it will continue at that pace going forward.

Powell said in his opening statement that the cut was a "recalibration" for the central bank and did not commit to similar moves at each upcoming meeting. "This recalibration of our policy stance will help maintain the strength of the economy and the labour market, and will continue to enable further progress on inflation as we begin the process of moving toward a more neutral stance. We are not on any preset course. We will continue to make our decisions meeting by meeting," Powell said.

He continued ," I think we're going to go carefully, meeting by meeting, and make our decisions as we go. We've waited. And I think that patience has really paid dividends in the form of our confidence that inflation is moving sustainably under 2%, so I think that is what enables us to take this strong move today," Fed Chair Jerome Powell said at his press conference on Wednesday. "I do not think that anyone should look at this and say, 'Oh, this is the new pace."

Job growth slowdown 'bears watching.'

Federal Reserve Chair Jerome Powell said the U.S. labor market is currently "pretty close" to maximum employment but reiterated that the central bank was aware of signs that job growth has cooled. "Clearly payroll job creation has moved down over the last few months, and this bears watching," he said.

He does not see the risk of an economic downturn being "elevated" following the super-sized cut. "I don't see anything in the economy right now that suggests that the likelihood of a recession, sorry, of a downturn, is elevated," he said. "You see growth at a solid rate. You see inflation coming down. You see a labour market that's still at very solid levels. So, I don't really see that now."

Yahoo Finance (2024)

S&P 500, Dow surge to fresh all-time highs after Fed's big rate cut.

The S&P 500 and the Dow Jones Industrial Average touched fresh records following the Federal Reserve's move to cut rates by 50 basis points. At its high, the Dow jumped to 41,981.97, up more than 375 points. The S&P 500 reached 5,689.75, jumping 0.98% for a new record. The major averages took back some of their gains shortly after as the big cut raised concerns about the economy.

Yahoo Finance (2024)

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