



Fed will be 'patient'

The Fed kept rates steady in today's FOMC statement, making markets happy with a dovish pause.

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The Federal Reserve's policy statement released today had the markets focused on language, not numbers. The Fed held the target range of the federal fund rate at 2.25%-2.50%, which was widely expected, but specifically added the word "patient" and removed the wording of further gradual rate increases. The market is interpreting the statement as a dovish pause, with risk assets rallying (stocks up and corporate bond spreads tighter), Treasury Inflation-Protected Securities outperforming nominal Treasuries, the yield curve steepening and the dollar weakening. Interest-rate action is no longer on autopilot, but again data-dependent, and the Fed slightly downgraded economy from strong to solid based on recent figures.

The Fed also addressed the balance sheet, saying it wanted to have an "ample supply of reserves"—i.e., a large balance sheet—and said it is "prepared to adjust any of the details for completing balance sheet normalization in light of economic and financial developments." This implies an earlier end to the reduction of its holdings.

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