September 17th and 18th FOMC Meeting Follow-Up:

Policy Normalization on Target: In spite of one member voting for a 50 bps reduction and two members voting for no change, the FOMC voted to reduce the Fed Funds rate by 25 bps to a targeted range of 1.75% to 2.00%. As has been the case for recent meetings, this decision was generally "as expected" by the market, with a near ~100% implied probability of at least a 25 bps reduction reflected in the futures market since early August. Amid notable pre-meeting volatility in the overnight repo lending market, the Committee unanimously voted to cut the interest it pays on required and excess reserves to 1.80%.

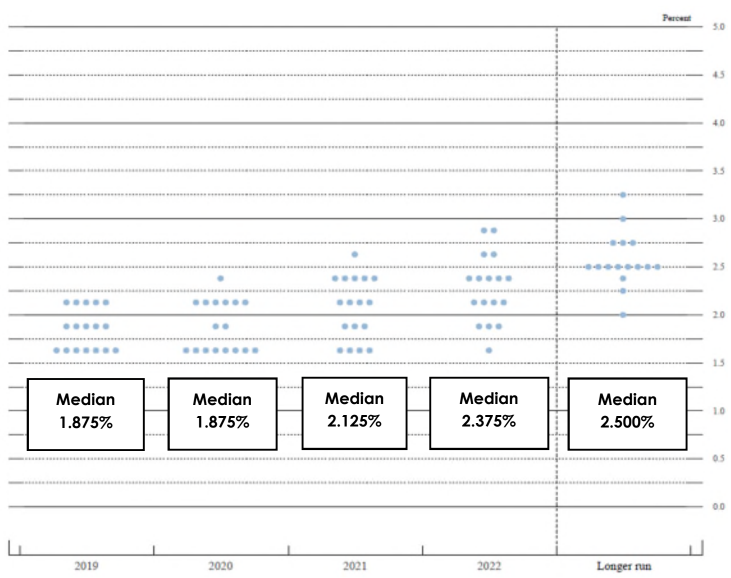
Growth: The official statement indicated again that "economic activity is rising at a moderate rate". GDP expectations for 2019 increased slightly, with the median and central tendency each increasing 0.10%, while the lower bound increased by 0.2% for 2020 and 2021. The median initial projection for 2022 suggests sustained economic growth of 1.8%, which is below the current year's estimate of 2.2% and at the low end of longer-run projections (ranging from 1.7% to 2.1%).

Unemployment: Consistent with recent payroll reports, once again "job gains have been solid, on average." With 107 consecutive months of payroll expansion, the official unemployment rate was at 3.7% in August, yet year-over-year wage growth has not induced inflationary pressures. The median longer-run unemployment projection by Committee members remained at 4.2%, with the first projection for 2022 showing 3.9%, only a modest 0.1% increase over the projection for 2021.

Inflation: The statement noted "household spending has been rising at a strong pace", yet "market-based measures of inflation compensation remain low" and "survey-based measures of longer-term inflation expectations are little changed." The Fed's preferred measure (Core PCE) was at 1.6% in July and remains below the symmetric 2.0% target. Inflation expectations among Committee members remained unchanged across all periods, with the first projection for 2022 coming in at 2.0%, equal to the longer-run projection.

Rate Projections: The Committee maintained its intention to "act as appropriate to sustain the expansion" amid uncertainties around most likely outcomes and international developments. Forward-looking expectation for rates were down 0.50% for 2019 and 0.25% for both 2020 and 2021, even as potential rate hikes appear in the back half of the projection period. The "dots plot" currently suggests no further action in 2019 or 2020. The longer-run median expectation remains at 2.50%. Post-meeting, the Fed Funds futures are pricing in a ~40% probability of another rate cut in October and a nearly 70% chance of at least two more cuts by next July. Overall, the statement and the press conference met the stock market's expectations as the S&P 500 rose in afternoon trading. Bond yields were mostly lower although the yield curve flattened somewhat.

Revised Dot Plot:



Futures Implied Probabilities:

Meeting Date	<1.25%	1.25-1.50%	1.5-1.75%	1.75-2%	>2.00%	Market Implied
Oct-19	0.00%	0.00%	39.27%	60.73%	0.00%	1.78%
Dec-19	0.00%	16.04%	48.04%	35.93%	0.00%	1.67%
Jan-20	7.56%	31.13%	42.33%	18.99%	0.00%	1.56%
Mar-20	17.06%	34.54%	35.21%	13.20%	0.00%	1.48%
Apr-20	24.14%	34.68%	30.69%	10.49%	0.00%	1.43%
Jun-20	30.48%	33.95%	27.00%	8.57%	0.00%	1.38%
Jul-20	35.81%	32.86%	24.10%	7.22%	0.00%	1.34%

*Source: Bloomberg, calculated 9/18/19

	8/30/19	9/16/19	Post-Meeting
2-Year U.S Treasury	1.50%	1.76%	1.76%
5-year U.S. Treasury	1.39%	1.70%	1.68%
10-Year U.S Treasury	1.50%	1.85%	1.80%
30-year U.S. Treasury	1.96%	2.32%	2.25%
S&P 500 Index	2926.5	2998.0	3006.7
S&P 500 Volatility	19.0	14.7	14.0