Fed Leaves Interest Rates Unchanged: 4 Insights from Loomis Sayles

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Plans for normalization deferred, not derailed

"Today the FOMC signaled that plans for interest rate normalization are deferred but not yet derailed. It's difficult to categorize this outcome as a genuine surprise. While the rate decision and accompanying policy statement were no doubt dovish relative to expectations, the so called "dot plot" reveals that the median Fed member sees that interest rate normalization, once begun, is expected to proceed at the same pace as was expected in June. The expected medium-term path for rates beyond lift-off is little changed. While recent international developments and associated market volatility have increased near-term uncertainty, these developments have not altered the Fed's fundamental outlook."

- Michael Gladchun, Fixed Income Trader

The Fed is right not to add fuel to the fire

"The Fed pointed to "recent global and financial developments" as key reasons for maintaining the status quo. They have been flagging the risks associated with a slowing China and the turmoil in other emerging markets. We believe the Fed is right to not add fuel to that fire, especially since a wait-and-see approach does not present risks to the US economy, which shows no inflationary pressures.

China is the main external concern. The good news: the market seems to be pricing in a hard landing for China based upon price actions witnessed in the commodity and emerging markets sectors. Downside from here would require an even worse case economic scenario, which seems less likely. The bad news: we have not yet observed an inflection point in the economic deceleration taking place in China and other emerging markets. Both the financial markets and the Fed will be sifting through the tea leaves in coming months to see if these trouble spots start to show signs of improving. It should show up in trade and credit data first. Until then, expect the markets to be jittery and volatile."

- Matt Eagan, Portfolio Manager

Stocks poised for further recovery

"In my view, whether the Fed raised rates at this meeting or not, stocks are poised for further recovery later this year and have the potential to reach new highs in 2016.

S&P 500 earnings have been tamped down by weakness in the energy and commodity sectors. Multinationals could see less adverse currency impact in the first half of next year depending on the extent to which the Fed holds rates steady, leading to less upward pressure on the dollar."

- Richard Skaggs, Senior Equity Strategist

Company performance will matter most

"Equity valuations are much more sensitive to long-term interest rates than to short-term Federal Reserve rate actions. If inflation remains relatively low and long-term rates remain supportive, company performance will matter most to equities.

Global equities have been more volatile in recent weeks with emerging markets being one source of heightened concern. The Federal Reserve cited global developments in today's statement; we will continue to watch developments offshore just as intently as developments within the US for direction during the balance of the year."

- Craig Burelle, Macro Strategies Research Analyst

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