The Federal Reserve in its policy setting meeting made the unprecedented step of committing to a target rate for a fixed period of time. They stated that weak economic conditions will “warrant exceptionally low levels for the federal funds rate at least through mid-2013” They did not announce another round of asset purchases but committed to continued reinvestment of principal and interest from the existing portfolio.

The committee downgraded its assessment of the economy stating that “economic growth so far this year has been considerably lower than the committee had expected.” When the Federal Reserve last lowered their view on growth they attributed the slowing to temporary factors such as supply chain disruptions from the Japanese Tsunami. In this release they acknowledged persistent problems with the economy holding back growth. Housing remains depressed, household spending has flattened out and that full employment will only return gradually. The committee’s overall assessment was that downside risks to the economy had increased.

The announcement caused rates to fall as the two year treasury yield fell from 0.28% to as low as 0.16% and ten year maturity Treasuries fell from 2.35% to 2.15%. The weakened economic assessment also knocked down the stock market as the rebound from yesterday’s selling reversed and stocks are now about unchanged on the day. The S&P is at 1,123.09 up 0.42% for the day and now down 10.55% for the year. Please let us know if you have any questions.

Regards,

Steven Alexander, CTP, CGFO
Managing Director
PFM Asset Management LLC
300 South Orange Avenue, Suite 1170
Orlando, Fl 32801407-648-2208fax: 407-648-1323
alexanders@pfm.com

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