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Weekly Commentary

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Steady going

In the nearly absurd battle over the last three quarters between the markets and Federal Reserve over the number of expected federal funds cuts in 2024, it figures that traders would capitulate just when policymakers left the scene. Fed officials have entered their media/appearance blackout period ahead of the Federal Open Market Committee (FOMC) this week. With no speeches, you might imagine the unchecked markets would revisit their early mania that led them to forecast twice as many rate cuts this year than policymakers had. Going into the FOMC meeting—in which no one expects any policy action at all—investors now expect around 75 basis points of easing, in line with earlier Fed projections.

The data certainly backs up this change of heart. The U.S. economy continues to be strong, with the latest inflation readings of the consumer and producer price indices rising a tick and the labor market still robust. That means the Fed will have much less confidence they will subdue inflation anytime soon. Of course, this week's meeting produces the newest Summary of Economic Projections, which may bully the markets even further. How will they react: putting up their dukes again or submitting without a fight?

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