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Weekly Commentary

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Zig and zag

The Federal Reserve and the markets are at it again. Every time one of them shifts expectations for the timing and magnitude of changes in the federal funds target range, the other moves the other way.

Last year, the futures markets forecast that seven quarter-point rate cuts would come in 2024, while Fed officials only projected three. Traders and investors eventually moved closer to that number, but higher inflation prints and strong jobs reports muddled the situation.

Things changed again after the Federal Open Market Committee (FOMC) released the latest Summary of Economic Projections (SEP) after its meeting finished on Wednesday. It showed policymakers now anticipate cutting rates just once this year. Yet hours before that, the Bureau of Economic Statistics released the May Consumer Price Index report, which showed inflation had finally resumed its decline. Only the people in that large boardroom in the Fed headquarters in Washington, D.C., know how much that impacted the SEP. But it did affect the markets, as they now forecast two cuts by year-end, one coming in September.

It would be nice to have consensus on this critical issue, but the economic situation is complex and fluid as the country is still shaking off the aftershocks of the pandemic. We will see if the next FOMC meeting, in July, brings harmony.

Consumer Price Index (CPI): A measure of inflation at the retail level.

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