Weekly Commentary

FEBRUARY 17, 2025

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Inflation creeping up

From the Federal Reserve's first hike in 2022, Chair Jerome Powell has frequently said the central bank will do whatever is necessary to curb inflation, which had soared to multi-decade highs. After two years of setting interest rates high, policymakers thought prices were finally cooling off and decided to lower the fed funds target range in September.

A full percentage-point worth of cuts later, the last one coming in December, and that has not proven true. Inflation has stalled at a growth rate still above the Fed's 2% target. This week brought more bad news. The January Consumer Price Index (CPI) released Wednesday, was warmer than expected. Headline CPI was 0.5% month-over-month (m/m) and 3.0% year-over-year (y/y), each 0.1% higher than December. Same story with the core reading, which strips out volatile elements such as oil and food prices. It was 0.4% m/m and 3.3% y/y compared to 0.2% and 3.2% in December.

Combined with the still strong labor market, policymakers are now saying that rates might need to be restrictive for longer than they thought last summer. The Federal Open Market Committee didn't cut rates in January and isn't expect to in its March meeting. It might not move until summer. But the bias is still for easing, and other indicators, such as a decline in retail sales in January, back that up. We anticipate at least one 25 basis-point reduction in this year. Even if that comes to pass, it is more and more looking like 2025 will be another productive year for liquidity products, whose yields track the Fed to various degrees.

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G40461-19 (2/25)