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# Weekly Commentary

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**Paige Wilhelm**
*Senior Vice President*
*Senior Portfolio Manager*
*Federated Investment Counseling*

## Horizon of hikes

The Federal Reserve took another big swing at inflation last week when it raised the fed funds target range by 75 basis points. The markets were expecting this—some even predicting a larger hike—but the Summary of Economic Projections seemed to surprise investors with its own hawkishness. The target range now sits at 3-3.25% but the members of the Federal Open Market Committee project it will rise to 4.25-4.50% by year-end. The math says we are in for hikes of 75 and 50 basis points in the last two meetings of the year (November and December).

Fed officials seem to think these leaps in rates, combined with more action in 2023, will take fed funds to 4.6% (the median measure of their forecasts, colloquially known as the dot plot), at which point inflation might be tamed and rates will recede. But the economy is going to suffer. They see U.S. gross domestic product growing by less than 2% next year. Certainly, the housing market already is feeling it as mortgage rates rise. The home builder's index and building permits fell last week.

It's hard to wrap one's head around so many sharp increases in rates, but the liquidity markets in general are benefitting with higher yields. More good news came with the continued trimming of the Fed's massive balance sheet by $95 billion per month.

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