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Weekly Commentary

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Paige Wilhelm

Senior Vice President

Senior Portfolio Manager

Federated Investment Counseling

Fed getting squeezed

Data released last week shows that the Federal Reserve's dual-mandate vice is tightening. The Fed is tasked with both keeping prices stable and unemployment low. When these move in the same direction, its job is clearer than when they don't. In fact, when they diverge, deciding on the right path for monetary policy becomes quite complex. That's where the mandate seems to be headed, bolstered by three reports.

The first two involve the labor market. The US Bureau of Labor Statistics has already told us that hiring slowed in the summer. Last week, it said that it had overstated the number of new jobs added by 911,000 for the period April 2024 through March 2025. Then came word that the number of people applying for unemployment benefits jumped in the week ended Sept. 6, from 237,000 in the week prior to 263,000.

Finally, the government released the August Consumer Price Index (CPI) report, which showed that inflation is not falling as the Fed hoped it would have by now. The main, or headline, measure showed inflation rose 0.4% compared to July and 2.9% from a year ago. The Core readings, which strips out volatile elements like energy and food prices, were 0.3% and 3.1%.

If Fed officials feel the combination of the data ties them in knots, the financial markets are decisive. Seeming to have chosen to focus on the softening employment situation, the odds in the federal funds futures market are almost 100% that the Fed will cut rates at this week's FOMC meeting.

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