Weekly Commentary

JANUARY 02, 2023

Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

Inflation still center stage in 2024

It's hard to believe another year has passed. The last 12 months were exceptional for liquidity products as the Federal Reserve continued to raise rates. Even the pause since the Federal Open Market Committee (FOMC) meeting in July, has helped. The target range of 5.25-50% seems to be a sweet spot—high enough to keep yields attractive, yet not so high to push the U.S. economy into a recession. A soft landing seems possible.

The latter is dependent both on luck and what the Fed does in 2024. At the December FOMC meeting, the updated Summary of Economic Projections showed that participants think the year will end with 75 basis points of easing. That would be an appropriate pace. But the markets are calling for many more cuts. While Chair Jerome Powell didn't push back on this development at the meeting's press conference, Fed speakers since have.

At the heart of the matter is the same issue that started this whole tightening campaign: inflation. While it has come down rapidly from the multidecade highs of last year, it is still above the Fed's target of 2%. And much of the recent decline has been due to decreasing energy prices. If those rise, or other reasons cause inflation to increase—even slightly—the Fed might be spooked. Officials have not stopped worrying that cutting rates too early could lead inflation to reverse course. If PCE/CPI are stubborn or move up, policymakers might not cut rates as fast, or even at all.

The Chicago Fed National Activity Index is a gauge the level of economic activity in the United States.

The Conference Board's Composite Index of Leading Economic Indicators is published monthly and is used to predict the direction of the economy's movements in the months to come.

The University of Michigan Consumer Sentiment Index is a measure of consumer confidence based on a monthly telephone survey by the University of Michigan that gathers information on consumer expectations regarding the overall economy.

Federated Investment Counseling

G40461-19 (1/24)