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Weekly Commentary

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Going once, going twice, sold?

The federal funds futures market is acting as if they are at an auction. Bids for the number of rate hikes this year have been moving up and up recently, but they came fast and loud last week after the blowout inflation figure. With January's annualized Consumer Price Index soaring to its highest level in 40 years, expectations for Federal Reserve hikes have risen. Estimates now range from the lower bound to be at 1.50-2% at the end of the year, implying potential increases of six to seven 25 basis-point hikes. Even the projections of the size are climbing, with a higher probability of a 50 basis-point hike occurring at the next Federal Open Market Committee meeting that ends March 16. Some prognosticators are raising their bidding paddles earlier than that, thinking the Fed might enact liftoff before that meeting.

Whatever the outcome, liquidity products should benefit, as yields historically have followed—even anticipated—the path of fed funds. The imminent end of the Fed's bond buying program also will eventually help. But with price pressures unlikely to recede in the next few months, the calls for hikes might get louder.

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