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Weekly Commentary

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Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

Speed climbing

The Federal Reserve went big, and may do so again. After a hot Consumer Price Index report arrived just as policymakers were prepping for the Federal Open Market Committee meeting last week, they voted to raise rates by the largest margin since 1994. By increasing the fed funds target range by 75 basis points, they showed not only the aggressive stance on inflation the markets had expected, but that they probably wished it had had a meeting between March and June. Fed officials likely would have raised rates by at least a quarter point if they had that opportunity, as an intra-meeting move would have upset the markets.

The new range of 1.5-1.75% might be bumped up again by 50 or even 75 basis points at July's FOMC meeting, but Chair Jerome Powell made clear in his press conference that a hike is definitely coming. That can be inferred by the new dot plot that put the median rate at 3.4% by year-end.

All in all, the Fed is dead serious about reducing inflation, even if some of the reasons are out of its control, namely the war in Ukraine, Covid-related shutdowns and supply-chain snarls. While that will take some time, liquidity products stand to benefit from the rate hikes.