Weekly Commentary

NOVEMBER 07, 2022

Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

Lag and letdown

With the largely unfounded belief fermenting in the markets that the Federal Reserve would soon curtail its hawkish plans, its public communication has been particularly sensitive. Witness the heft that one sentence in the Federal Open Market Committee statement from its last meeting: "In determining the pace of future increases in the target range, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments." Investors immediately interpreted this as saying the Fed thinks its rate hikes might already have slowed the economy enough; it is just a matter of time until that shows up in the data. It would follow that policymakers would then soon slow and even stop raising rates.

Fed Chair Powell's press conference that followed the meeting threw icy water on this optimism. He flat out rejected the concept of a pause in tightening. Instead, he said the terminal rate—the level the Fed thinks rates must reach to defeat inflation—was more crucial than the pace of hikes. In other words, whether the Fed raises rates 75 basis points or "only" 50 basis points in December won't change how high they will actually go. The robust October jobs report showed Friday that, outside of liquidity products, more pain to investors seems to be in the cards.

G40461-19 (11/22)