Weekly Commentary

JANUARY 08, 2023

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Not much guidance

Released last week, the minutes of the December Federal Open Market Committee meeting failed to clear up the cloudiness over the path of its policy this year. Federal Reserve Chair Jerome Powell's lack of pushback against optimistic markets in his press conference following that meeting led the markets to price in several rate cuts, with one potentially coming in March. Unfortunately, the minutes didn't give more insight on the nuance the Fed is trying to impart—that it is soon going to ease, just not yet—by offering contradiction.

The sentence, "Participants viewed the policy rate as likely at or near its peak for this tightening cycle," was followed by the statement that they, "reaffirmed that it would be appropriate for policy to remain at a restrictive stance for some time until inflation was clearly moving down sustainably," which was further complicated by, "In their submitted projections, almost all participants indicated that, reflecting the improvements in their inflation outlooks, their baseline projections implied that a lower target range for the federal funds rate would be appropriate by the end of 2024."

Hardly the clarity we need, especially with signs the economy, while weakening, hasn't rolled over. That point was made yet again last week with a solid jobs report and decent manufacturing activity in December. This would seem to fit the narrative of maintaining a restrictive stance, something the markets simply do not believe.

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.

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G40461-19 (1/24)