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Weekly Commentary

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Looking for guidance

It was a light week for data, with the escalation in hostilities in the Middle East the biggest news. Concerns that the renewed fighting will push energy prices higher will weigh on Federal Reserve officials when the Federal Open Market Committee meeting takes place Tuesday and Wednesday.

They will not get as much help from the main government inflation measures as they usually have in hand. The Consumer Price Index's lower-than-expected 3.5% annualized growth rate in June (consensus was for 3.8%) might be an aberration, and in any case came before the renewed conflict. And the Personal Consumption Expenditures Index for June will be released the day after the meeting. However, the Fed has its own measurements that might fill the gap to policymakers' satisfaction. The markets, and we, do not anticipate a rate cut.

But what will Fed voters do with the information that initial jobless claims of 187,000 for the week ending June 18 was the lowest in more than five decades? This certainly could be another inflation booster if it truly indicates the labor market is running hot. This combined with the war and their own coin-flip projection (Nine of the 18 FOMC participants) for a potential hike by year-end have tightening as the most likely scenario in 2026. It will be intriguing to hear what Fed Chair Kevin Warsh says about this, considering he wants to cut down on forward guidance.

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