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Weekly Commentary

MAY 23, 2022

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The Fed has donned blinders

The stock market had a rough go last week, but money markets are benefitting from the main reason why. That'd be the Federal Reserve's resolve to curb inflation.

The week featured several speeches and appearances by Fed governors and regional bank presidents, all of whom intoned the same refrain: They are going to rein in prices at all cost. Traditionally, the Fed doesn't want equities to tank, but is fine with them selling off when it begins to tighten policy, which is the case now. If stocks drop too far, policymakers might see it as a sign companies and consumers are responding quicker to their increase in rates. If that is the case, they might slow the pace of rate hikes, feeling that the economy is cooling faster than expected.

The goal is to bring inflation to a manageable level (2% annualized is the target) without pushing the country into a recession. That's referred to as a "soft landing." It is tricky, so officials seem to be singing the same tune for now to communicate as clearly as possible to the markets that they are watchful and willing to alter plans based on data. We still expect a 50 basis-point increase in the fed funds target rate in the June policy meeting. The hikes are tough on equities, but rising rates have been translating into rising yields in most money market vehicles, with the potential to continue.

G40461-19 (5/22)