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Weekly Commentary

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Whether a hop, skip or jump, Fed might not hike in June

Forecasting the rate decision the Federal Reserve will make in meetings since January of 2022 has been humbling for the markets. Consensus-bucking economic data and policymakers' unwavering commitment to crushing inflation have stymied expectations. It's been even more the case with meetings beyond the most immediate Federal Open Market Committee conclaves. Yet the federal funds futures market is looking beyond the meeting next week (with the statement and press conference on June 14) to July's.

The consensus is for the Fed to forgo another rate hike in June but deliver a 25 basis-point one in July, then cut rates twice before the end of 2023. We think the first part of the prognostications is possible, but won't make the call in July until after June. However, we disagree with the latter projection. We are of the mind the Fed will pause rate hikes to assess the impact of the aggressive hiking cycle begun in March 2022. The U.S. economy is refusing to follow the narrative that the massive jump of the fed funds target ranges from the zero bound to a range of 5-5.25% will push it into a recession.

The latest sign was the stronger-than-expected May jobs report. Nonfarm payrolls increased by 339,000, the largest leap in four months. The Labor Department also revised March and April numbers up. The ADP Private Employment report was also robust, showing additions of 287,000 new jobs, even job openings came in above expectations. This is not data that lends itself to easing of monetary policy.

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