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Weekly Commentary

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Flight to safety

Federal Reserve Chair Jerome Powell might as well have turned off the television, stayed off the internet and muted his social feeds the last few weeks. President Trump's on-again, off-again tariffs have whipsawed the markets and caused fervor and anxiety everywhere. But the situation is too volatile to influence monetary policy moves. Those decisions, such as the shifting of the Fed's benchmark fed funds rate, are based on longer periods of time and observable trends, particularly in the so-called hard economic data.

Well, Powell finally got something substantive to consider when the latest Consumer Price Index (CPI) report, released Thursday, showed that inflation declined in March from February. The rate of price growth wasn't lower inflation actually fell. Not by much—0.1%—but it decreased. The annualized growth rate was notably less than February's: 2.4% versus 2.8%. Core CPI, which strips out volatile elements like energy and food prices, also grew slower: 0.1% from February and 2.8% year-over-year (y/y) from February's reading of 3.1%. Similar story with the Producer Price Index (PPI), with the inflation growth rate falling month-over-month (m/m) by 0.4% after being flat in February and declining y/y to 2.7% from 3.2% in February. Core PPI saw a lowering of the m/m growth rate to -0.1%, the same level as February, and the y/y rate to 3.3% from 3.4%.

This softening of prices and costs, after several months of data suggesting that inflation might accelerate, allows Powell and company latitude. They could cut rates if they believe tariffs will tank the economy or maintain them by reiterating inflation remains above the 2% target. In other words, there is some wiggle room. Policymakers have leeway to make decisions with less worry about negative ramifications from investors. While the next FOMC meeting is not until May, we might see Fed speakers be ambiguous, perhaps on purpose.

Views are as of the date above and are subject to change based on market conditions and other factors. These views should not be construed as a recommendation for any specific security or sector.

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