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# Weekly Commentary

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**Paige Wilhelm**
*Senior Vice President*
*Senior Portfolio Manager*
*Federated Investment Counseling*

## Keeping our eyes on the prize

A high inflation reading understandably sends shivers down the spine. Few aren't concerned about it. The annualized growth of the consumer price index rose to 6.2% in October—a peak last reached in 1990. Most media outlets labeled it a five-alarm fire. We are not immune to worry, and we know Americans are feeling the increases in gasoline, food and other costs. Unfortunately, some costs may stick, especially if businesses pass higher wages and supply-chain bottlenecks on to consumers in the form of higher prices. Yet the maxim to "not fight the Fed" still stands. While the Federal Reserve probably underestimated price pressures, policymakers still expect inflation to fall in 2022, even if the economic recovery picks up steam after the impact of the Covid-19 delta variant recedes.

How that journey plays into the liftoff of rates is becoming more apparent now that the Federal Open Market Committee voted to reduce the amount of the central bank's monthly asset-purchase program in order to lower demand for Treasuries and mortgage-backed securities. As Chair Jerome Powell has made clear on several occasions, the first hike from the zero bound won't occur until after this tapering process has concluded, likely in late summer 2022. So, heeding the Fed's words—and its long-run target of 2%—places the all-important "liftoff" of the fed funds rate potentially in the third quarter next year. There's lots of data between here and then, but that's good news for the broad money markets.

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