FLORIDA PRIME™

Weekly Commentary

FEBRUARY 27, 2023

Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

Haunting words

On Friday, two days after the minutes of January's Federal Open Market Committee (FOMC) meeting indicated officials are ready to pounce if inflation stops moderating, we got the bad news it indeed had. Both the headline and core Personal Consumption Expenditures Index (PCE) rose 0.6% from January to February after rising only 0.2% and 0.4% respectively from December to January. This comes on the heels of monthly increases in the Consumer Price Index and Producer Price Index readings for January. Month-over-month, the former rose 0.5% and the latter increased 0.7%.

The information may mean the Federal Reserve will raise rates higher than previously thought. Here's the indication from the FOMC minutes: "A number of participants observed that a policy stance that proved to be insufficiently restrictive could halt recent progress in moderating inflationary pressures, leading inflation to remain above the Committee's 2 percent objective for a longer period, and pose a risk of inflation expectations becoming unanchored." Translation: the committee is willing to push the federal funds rate higher, perhaps to a range of 5.50%, before pausing. While that's good for liquidity investors, expect the stock and bond markets to suffer.

G40461-19 (2/23)