Weekly Commentary

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Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

All Fed meetings are special these days

Ever notice how lately every upcoming Federal Open Market Committee meeting is the most crucial of the last 12 months? That's a mark of the high level of uncertainty about how the economy and inflation have behaved since the Federal Reserve began aggressively raising interest rates in March of 2022.

The situation is exemplified by the labor market. By now, it should have deteriorated. That's what's supposed to happen when the Fed pushes up borrowing costs. But few issues seem to be going as the academic models predict. The latest is the nonfarm payrolls report released today. The U.S. employment situation rose by 236,000 jobs in March and the unemployment slipped to 3.5%. While that's less than February's increase of 326,000 jobs, it is not fitting the narrative of the slowdown in the manufacturing and nonmanufacturing sectors (as measured by ISM). It doesn't square with the Job Openings & Labor Turnover Survey (JOLTS), ADP and the Challenger job cuts reports and slowing initial weekly jobless claims. Again, the Fed might need to ignore the labor market and focus on inflation, with the Consumer Price Index for March coming next week. If that remains uncomfortably high, then the Fed might hike 25 basis points and perhaps the same in June. Looks like the critical FOMC meeting will be the "next one" for the foreseeable future.

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