FLORIDA PRIME

Weekly Commentary

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Heed these sayings

Two sayings apply well to the current disconnect between market and Federal Reserve forecasts for monetary policy in 2024: "Don't fight the Fed" and "Don't let perfect be the enemy of good."

It's always amazing how speculative investors consistently defy the Fed. If the definition of insanity is attempting the same thing over-and-over and expecting a different result, then the markets often lose their minds. In the Federal Open Market Committee's (FOMC) September Summary of Economic Projections (SEP), 12 out of 19 participants forecasted an additional 25 basis-point rate hike by year-end and anticipated the median fed funds rate for the next two years would be 5.1% for 2024 and 3.9% for 2025.

It is true that the softening of inflation and the employment picture—at 199,000 in November, the U.S. added under 200,000 nonfarm jobs for the second consecutive month—since then makes a hike very unlikely at the FOMC meeting this week. But policymakers' insistence inflation remains too high are not idle words. "It would be premature to conclude with confidence that we have achieved a sufficiently restrictive stance, or to speculate on when policy might ease," Chair Jerome Powell recently stated.

Even if the updated SEP indicates easing next year, it is bound to show fewer cuts than the current market call. Investors should be wary of trying to time the pivot—timing the market is always risky. That's where the second maxim comes in. We remain cautious and conservative, expecting the Fed to hold rates at the current high levels for much of 2024, in contrast to fed funds futures pointing to a May, or even a March, cut. "Everything in moderation."

The Chicago Fed National Activity Index is a gauge the level of economic activity in the United States.

The Conference Board's Composite Index of Leading Economic Indicators is published monthly and is used to predict the direction of the economy's movements in the months to come.

The University of Michigan Consumer Sentiment Index is a measure of consumer confidence based on a monthly telephone survey by the University of Michigan that gathers information on consumer expectations regarding the overall economy.

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