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## Double vision

In a week that saw Federal Reserve Chair Jerome Powell speak to both chambers of Congress, the Fed's dual mandate took center stage.

As is well known, decades ago lawmakers on Capitol Hill tasked the Fed with the goals of full employment and price stability. For various reasons, policymakers define each as hitting figures above zero, though only inflation is given an actual number, at 2%. For more than two years, it has been substantially above that target, while the labor market has been extraordinarily robust. But misalignment on just one side of the equation was enough for the Fed to embark on an aggressive rate-hiking campaign.

Recently, prices have edged downward to levels not far from the goal. The annualized core Consumer Price Index fell in June to 3.3% from 3.4% in May, and the core Personal Consumption Expenditures Index declined in May to 2.6% from 2.8% in April. That alone should give officials impetus to cut rates, but Powell told politicians last week that the employment situation also has been softening in recent months: "Elevated inflation is not the only risk we face. We've seen that the labor market has cooled really significantly across so many measures."

With both parts of the mandate weakening, odds of the Fed reducing its target range from 5.25-5.50% this year increase, with the September even getting some market consideration. However, the presidential election likely will prompt it to wait until its November meeting, after Election Day, to avoiding seeming politically minded. We will learn more when the Federal Open Market Committee meets later this month. A cut is not expected, but Powell's press conference should be revealing. In any case, the dual mandate will be front and center from here on.

**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.**

**Consumer Price Index (CPI):** A measure of inflation at the retail level.

**The Personal Consumption Expenditure Index:** A measure of consumer inflation at the retail level that takes into account changes in consumption patterns due to price changes.

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