

DECEMBER 16, 2024

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Worrisome trend

A Federal Reserve policy meeting whose rate decision was once considered a coinflip is now almost certainly to result in a 25 basis-point cut. The question is, will policymakers regret it?

Ever since various measures of inflation hit multi-decade highs around three years ago, they have said their main concern is to return it to 2%, their long-run target. But lately, inflation has been trending up. The Consumer Price Index (CPI) rose 0.3% month-over-month (m/m) and 2.7% year-over-year (y/y). Core CPI, which excludes volatile data like energy prices, was 0.3% m/m and 3.3% y/y. The Producer Price Index (PPI), which measures what producers get for their products at the final-demand stage, increased 0.4% m/m and 3% y/y, the biggest advance since February 2023. Core PPI rose 0.2% m/m, but the y/y increase of 3.5%, the most since February 2023. This is not the path the Fed wants to see.

So, the attention will be on two elements of this week's Federal Open Market Committee meeting rather than on the decision over the federal funds target range (currently at 4.50-4.75%): the Summary of Economic Projections and Fed Chair Jerome Powell's press conference. In both, the markets will look for clues indicating the pace of further cuts. We expect that to slow in 2025, likely moving to a cut every other meeting. But if the main inflation data points creep higher—or just sit where they are—the Fed may have to pause the easing campaign altogether. Winning the battle against inflation is too important to fail.

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.

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G40461-19 (12/24)