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Weekly Commentary
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Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

The value of a quarter

It's looking like the Federal Reserve will downshift its tightening action again at the Federal Open Market Committee (FOMC) meeting next week. Several officials have given speeches or interviews recently that say that a quarter-percentage-point hike of the federal funds rate would be appropriate. That would come on the heels of a half-point hike at the December FOMC meeting—itself 25 basis points lower than the previous four times they raised rates.

What a quarter-point hike Feb. 1 would mean for the markets and liquidity products is unclear. Until the next Summary of Economic Projections (SEP) is released at the March FOMC meeting, we have to go by the previous one, which forecasts the target range will reach 75 total basis points higher than it is now to reach the terminal rate. If that projection persists in the March SEP, it might not make a big difference what the magnitude is—the FOMC could reach it by spreading out hikes over three meetings or go with 50 basis points at the March meeting.

But it is the message that matters. Smaller hikes would suggest the Fed is now being cautious about driving the economy into a recession; a larger one could signal policymakers still worry inflation is not diminishing fast enough. Though inflation measures are moderating, they remain much too high.

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