Weekly Commentary

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Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

Hindsight is 50-50

Investors received data and discussions last week that suggest the Federal Reserve has work to do. Two Federal Reserve officials, Loretta Mester and James Bullard, said they would have heavily considered voting for a 50 basis-point hike in the last Federal Open Market Committee (FOMC) meeting, in which the target range was raised only 25 basis points. Neither of these speakers vote this year so couldn't issue official dissent from the decision. But other Fed speakers last week sounded like they perhaps should have voted for a half-point hike. While none couched the issue in those terms, several forecasted the federal funds rate might need to stay elevated for longer to successfully—and permanently—quell inflation.

These comments were backed up by the consumer price index (CPI) and producer price index (PPI) readings for January, both released last week. While headline figures showed declines in year-over-year (y/y) figures compared to December, both accelerated month-over-month (m/m). CPI was 6.4% y/y in January versus 6.5% in December, but it rose 0.5% m/m. PPI rose 6% in January versus 6.5% in December, but it rose 0.7%. Core figures for both followed those moves. While annualized figures get the most attention, monthly changes are crucial to policymakers, so it will be interesting to see how hindsight with the last FOMC meeting turns into rate action at the next one.

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