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Look before you cut

The Aesop fable of the fox and goat's tribulations at a drinking well urges us to look before we leap. Will the Federal Reserve apply the proverb at its next Federal Open Market Committee meeting that ends December 18? There is no shortage of data for it to see, and much of it argues for a pause of its easing campaign. That might mean keeping the federal funds target rate in its present range of 4.50-4.75%.

The argument is really the Fed's own. When policymakers first raised rates in March of 2022 to combat rampant inflation, they committed to holding them high until measures like the Personal Consumption Expenditures Index (PCE), Consumer Price Index (CPI) and Producer Price Index (PPI) neared or landed on 2%.

For a while, inflation did drop, and hitting the goal was only a matter of when, not if. That has changed. Prices have stabilized or ticked back up. October was a particularly bad month. Last week, the Labor Department's Bureau of Economic Analysis said that annualized PCE increased from 2.1% to 2.3%. It's been five months since these measures have decreased—a data plateau if ever there was one.

That disappointment joins the previously released CPI report for October. Its annualized measure rose 2.6%, an increase over the 2.4% growth in September. Annualized PPI was strike three, rising to 2.4%, much higher than September's growth of 1.9%. With all this to look at, the Fed might not want to leap—down, as it were—this year.

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