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Weekly Commentary

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Pace yourself

Monetary policy is a marathon, and Federal Reserve officials want to make sure they are pacing themselves. Philadelphia Fed President Anna Paulson used that word in remarks made last week, but many other members of the Federal Open Market Committee (FOMC) essentially expressed that view, whether at the October meeting or in recent communications.

The Fed released the minutes from the October FOMC meeting on Wednesday. The wording is typically vague, but the gist is that most policymakers think a tightening cycle is warranted to lower inflation. It seems that they hold this view despite the US economy not running hot and the labor market in a good place. Core consumer retail sales beat consensus forecasts by rising 0.6% in October, a good sign ahead of the important holiday season; initial jobless claims remained low at 200,000, providing further confirmation of solid employment.

The FOMC minutes suggest some members would be OK with a 50-basis point hike (though they did not state this number explicitly). But we, and the vast majority of the market, expect the 25 basis-point variety when they next meeting December 8-9. The Committee will have data from what Chair Warsh referred to as an "information-rich" period. The markets will listen closely to Chair Warsh's press conference for clues on that pace as we roll into new year.

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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