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Ukraine crisis might hinder Fed response to inflation

The calculus for the Federal Reserve's plans to normalize policy has changed following the Russian invasion of Ukraine, though the world won't know the extent until the policy meeting in two weeks. The markets had been buying into the potential for the Federal Open Market Committee to hike the fed funds target range by 50 basis points, a move that the Fed typically doesn't do, to counter soaring inflation. It cut rates by that amount in the early days of the pandemic, but prefers to hike rates more gradually, priming investors for each.

The war makes it more likely policymakers will limit liftoff to a quarter point, putting it in a range of 0.25-0.50%. That move, and the expected pace of similar hikes this year, should help cash managers adjust portfolios as they seek to buy securities at higher yields. Inflation could worsen, but the impact of the Ukraine crisis might prevail in the Fed's mind.