Weekly Commentary

NOVEMBER 11, 2024

Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

Might the election result slow the Fed's easing cycle?

Economics 101 says that monetary policy takes much longer to have an impact on a country's economy, while fiscal policy can affect it in the short term. But what about trade and immigration? That's the question now that Donald Trump has been re-elected, as they are under the purview of the executive branch. The answer is that they also are felt in the long term. Campaign promises often don't become fully implemented, but Trump's platform has included an increase in tariffs—potentially leading to a trade war—and a curb in immigration—which could lead to labor shortages. Textbooks view both of these as inflationary, and we think the Federal Reserve looks at this that way.

Unfortunately, the issue wasn't addressed in Fed Chair Powell's press conference last Thursday after the release of the Federal Open Market Committee's statement. With the result of a 25 basis-point cut in the fed funds target range completely expected, and with a new Summary of Economic Projections not coming until December, we had hoped he would have discussed the ramifications of the election. Not to be political, but because any inflationary pressure might push the Fed to slow its easing cycle, which potentially could keep yields in liquidity products higher for longer.

A slower pace of easing might occur anyway. Powell again said that the economy is still hot. Month-over-month inflation readings seemed to have plateaued, and the labor market "still has room to cool." Both of these suggest the prudent plan would be to hold rates at present levels. But there are a lot of reports and more details on the new administration's plans to come before the December FOMC meeting.

G40461-19 (11/24)