Weekly Commentary

MAY 28, 2024

Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

Did the Fed really just mention tightening?

The minutes of the late April/early May Federal Open Market Committee (FOMC) meeting, released last week, held extra interest as that meeting didn't issue an updated Summery of Economic Projections (SEP). Therefore, the mysterious "participants"—the minutes don't identify anyone by name—served as a stand-in for the forecasts for inflation, gross domestic product, employment and the "dot plot" outlining the likely path of rates.

The main interest to the markets was how much the participants' views on inflation could translate into rate action. We already know that the three quarter-point cuts the Federal Reserve had once penciled in as arriving in the second half of this year have been postponed. We expect to get only one or two now. But the specter of a rate hike raised its frightful head in the meeting. "Various participants mentioned a willingness to tighten policy further should risks to inflation materialize in a way that such an action became appropriate."

Chair Jerome Powell stated in his press conference to that May FOMC meeting that he did not think the next rate change would be a hike. But he did say he lacked the confidence inflation will decline enough to warrant the actual pivot to reducing the fed funds target range. He would prefer that the current high range of 5.25-5.50% will do the job of taking inflation closer to 2%, but even he might need to sign on to a hike if inflation doesn't play ball. The next FOMC meeting is a month away, and it will produce a new SEP. We can only hope it provides the clarity that has been lacking of late.

G40461-19 (5/24)