

The Fed Tries to Get Ahead of the Market

By: Jim Caron | September 21, 2022

New York - The 75 basis point (bps) rate hike came as expected, but one surprise was the 100 bps markup in end-of-year policy rates to 4.4% from 3.4%.

The next surprise was the increase in the Fed's forecast of their terminal policy rate to 4.5% - 4.75% from 3.8%.

The path of rate hikes corresponds to a 75 bps hike at the November 2022 meeting, a 50 bps hike in December 2022 and a 25 bps hike in January 2023.

Despite this aggressive pace of tightening, the Fed expects the labor market to remain strong with an unemployment rate rising only to 4.4%, while inflation simultaneously falls toward target levels of 2% - 2.5%.

Bottom line: While the front-loading of rate hikes may address inflation risks in the near term, it also increases the risks of recession in the longer term. This will weigh on asset valuations and tighten financial conditions.

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