MARKETS AND ECONOMY

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.

RISK CONSIDERATIONS

Market values can change daily due to economic and other events (e.g. natural disasters, health crises, terrorism, conflicts and social unrest) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g. portfolio liquidity) of events. Accordingly, you can lose money investing. Fixed income securities are subject to the ability of an issuer to make timely principal and interest payments (credit risk), changes in interest rates (interest-rate risk), the creditworthiness of the issuer and general market liquidity (market risk). In a rising interest-rate environment, bond prices may fall and may result in periods of volatility and increased portfolio redemptions. Longer-term securities may be more sensitive to interest rate changes.

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