Making Sense

September 2022 Federal Open Market Committee Meeting

Fed Remains Aggressive with Another 0.75% Hike

In Brief:

What just happened?

The Fed increased the federal funds rate by 0.75% to 3.00-3.25%.

The Fed also raised its guidance for the federal funds rate in the future.

Why did the Fed raise rates?

August's CPI report showed inflation at 8.3%—lower than earlier this year, but still stubbornly high.

Reports show inflation and higher rates may be weighing on economic growth.

The Fed helps decrease inflation by reducing aggregate demand with increased rates.

What now?

Review your financial plan.

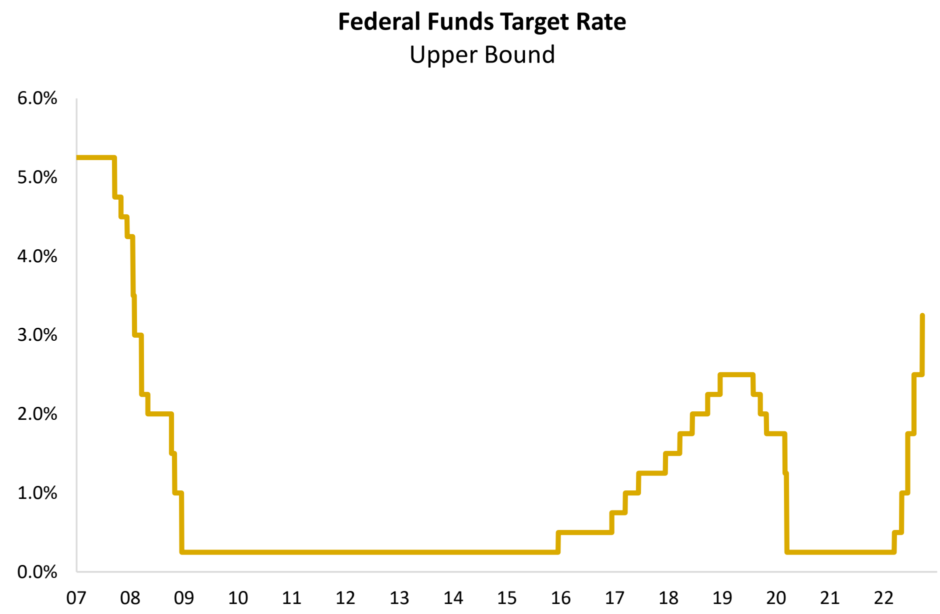
Truly assess your risk tolerance.

Talk with your financial partner.

As expected, the Federal Reserve increased the federal funds rate by 75 basis points to a level of 3.00-3.25%. Faced with persistently high inflation, the Fed is acting aggressively to slow the economy and thereby contain rising prices. We continue to expect further market volatility as the Fed performs a delicate balancing act between working to dampen economic growth while not going too far.

According to August's Consumer Price Index, consumers continue to feel the pinch of inflation in multiple areas including food and housing; inflation remained far too high at 8.3% even accounting for lower gasoline prices and airfares.

Figure 1: Federal Funds Rate



Source: Bloomberg

The Fed Raises Its Guidance for the Path of Interest Rates

With today's report, the FOMC released its quarterly projections, giving us more perspective on future rate hikes. The committee increased its median year-end federal funds rate projection to 4.4%—up from 3.4% in June. Members also increased the estimate for the end of next year to 4.6% from 3.8% in June. The Fed is focused on inflation and using its projections to communicate to markets that it will remain forceful while inflation is problematic.

What Does It Mean For Markets?

We anticipate continued volatility for both equity and fixed income markets, as uncertainty around inflation and monetary policy remains high. We will be closely watching the upcoming quarterly earnings season to gain more perspective on consumer and producer sentiment as we move to the end of the year.

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