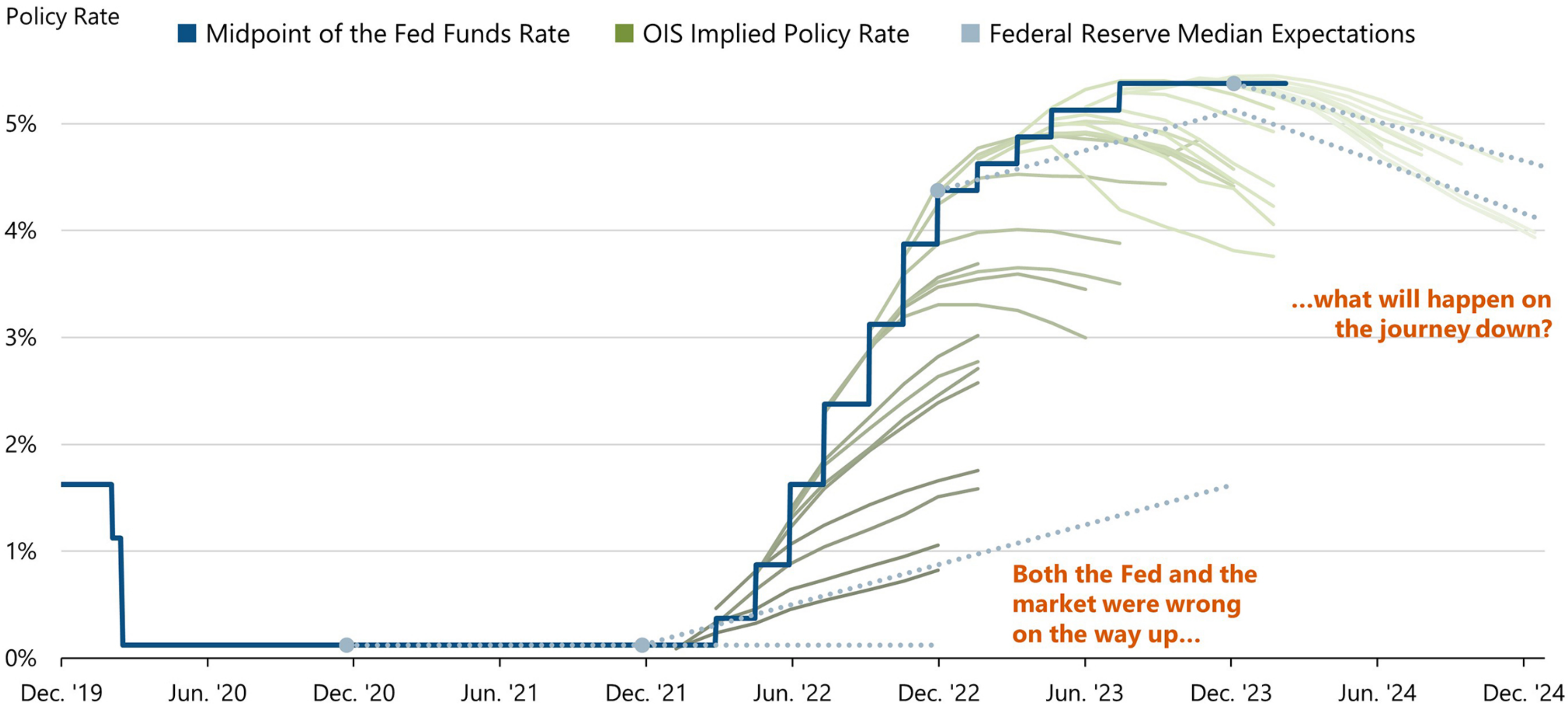
Blame Game

Federal Reserve Policy Rate Versus Market and Federal Reserve Expectations

For The Week Ending 02/16/2024



Source: Federal Reserve, Bloomberg, Payden Calculations

This week, January's Consumer Price Index (CPI) surprised investors, with core CPI, which excludes volatile food and energy prices, jumping 0.4% on the month and 3.9% versus a year ago. Bond investors quickly reassessed the timing and quantity of rate cuts expected, now four 0.25% rate cuts by year-end compared to seven when the year began. A blame game quickly got underway. Some investors lampooned the Fed for "pivoting prematurely." Others (ourselves included) blamed investors for setting themselves up for disappointment. After all, the Fed's December Summary of Economic Projections (SEP) suggested that *even if* inflation continued to cool, three cuts—not seven!—would be appropriate. Historically, neither investors nor policymakers excel at soothsaying. The 2022-2023 hiking cycle illustrates that reality often diverges from Fed *and* market expectations. What's the lesson? In Chair Powell's words, the economy can "evolve in many ways." Be prepared to be surprised again.