



WAIT AND SEE...

MAY 2024

Stratos Investment Management

3750 Park East Drive
Beachwood, Ohio 44122



Fed Chair Powell said that he expected inflation to continue heading lower but that he was less confident than he had previously been about that outlook. During a moderated discussion in Amsterdam today (Tuesday, May 14) he said that “We’re just going to have to see where the inflation data fall out.”

We believe that in this comment, Federal Reserve Board Chairman simply reiterated that the Fed is on hold until sufficient data supports cutting rates. As we have pointed out over the last month or so, it appears to us that inflation bottomed during last summer and events (tensions and fighting in the middle east, increasing home prices, etc.) have acted to push inflation higher than the Fed would like, leading them to put on hold their desire to begin reducing the Fed Funds rate.

We always thought that the rapid about face from a higher-for-longer rate environment to expecting six (or seven depending on the source) rate cuts for 2024 was a bit extreme – particularly since the data didn’t seem to corroborate.

While the Fed (and Fed Charman) have been steadfast in their belief that they will succeed in achieving their 2% inflation goal, we are not nearly as confident. In fact, we do not believe that 2% is achievable without a typical economic dislocation (recession), which the Fed also seems eager to avoid. In our mind, once they realize that 2% inflation probably isn’t achievable, they may likely decide that they are close enough, having met their “stable prices” mandate and allowing them to begin easing.

We just hope that inflation doesn't prove more stubborn and intractable than they believe. We will wait and see...

Malcolm E. Polley, CFA
Chief Market Strategist

Sources: The Wall Street Journal, "Fed Chair Jerome Powell Maintains Wait-and-See Posture on Inflation and Rates", by Nick Timiraos; FactSet



Disclosure: Investment advice offered through Stratos Investment Management, a registered investment advisor. Content in this material is for general information only and not intended to provide specific advice or recommendations for any individual. Investing involves risks including possible loss of principal.