To Our Valued Clients,

Is the Federal Reserve poised to change course? It has been 20 months since they commenced their aggressive rate-hiking efforts. Back then, the policy rate was 0%, the Fed was buying bonds, and inflation was at 8%, a scenario that certainly won't be celebrated in any economic textbooks. Since that time, the Fed has steadily raised rates to a cumulative effective rate of 5.33%, and inflation has receded to a year-over-year rate of 3.2% as of last month's data. Is the improvement in inflation data enough for the Fed to continue to hold rates at current levels, or even shift them lower?

Members of the Federal Open Market Committee (FOMC) will convene next week and provide us with one final rate decision for 2023. While we cannot say for sure what the outcome will be, what is certain is that even some of the most hawkish members of the committee have softened their stance in recent weeks as inflation data has continued to improve, and the labor market has softened. Comments from Committee Members Austan Goolsbee and Christopher Waller took center stage last week, with Goolsbee stating "Once you believe you are on the path to 2% inflation, amount of restrictiveness needs to be less; data will determine how fast we go." Waller echoed a similar sentiment, "good argument that if inflation keeps falling for several months that we could lower policy rate." The market, which has been yearning for signals that we are moving closer to the Fed lowering rates, took these comments, along with perceived improvement in economic data, and ran with them. The S&P 500 wrapped up its best month of the year, up 8.53% in November, and even more notably, the U.S. Aggregate Bond Index posted its best month since the 1980s, up 4.53%.

Powell will likely continue to convey messages promoting the committee's tough stance on inflation next Wednesday when he addresses the public on the results of the meeting, mostly because it's his job to do so. Although the improved inflation and labor market data, along with the comments from other Committee members have all but closed the door on additional hikes, we still are not back to the Fed's 2% inflation target. This environment lends itself to a continued pause as the most likely outcome for next week. Thanks for reading, and as always, if you have any questions or if we can help in any way, please don't hesitate to give our office a call.

With My Best Regards,

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