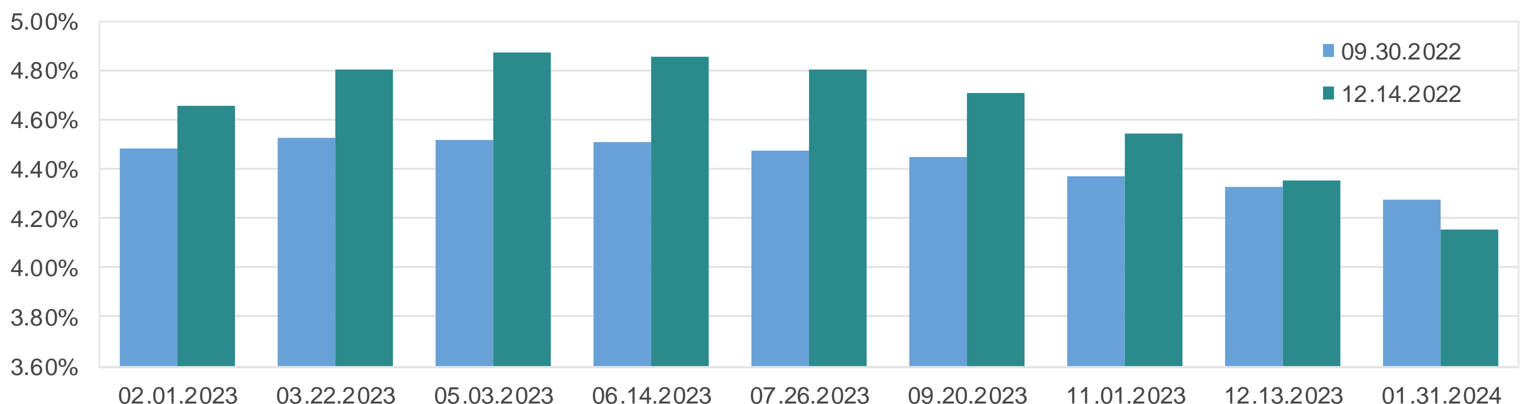
Fed Raises Rates 50 Basis Points – More Work To Do

December 15, 2022

The Federal Reserve (Fed), as expected, raised rates by another 50 basis points (bps) at their final meeting of 2022, December 14. While this is a reduction in magnitude after four consecutive 75 basis point hikes, it still represents a meaningful move and leaves the fed funds rate range now between 4.25% and 4.50%. Chair Powell reiterated their need to bring inflation down to 2.0% and stressed more work was needed on this front. He also acknowledged the danger in prematurely loosening policy citing the example from the 1970s. He pledged to “stay the course until the job is done.”

The Committee also released their quarterly Summary of Economic Projections (SEP). Of note, the Committee moved up unemployment to 4.60% for 2023 and lowered real growth to 0.50%. Importantly, they expect inflation to remain elevated in 2023, with the median projection for Core Personal Consumption Expenditures (PCE), the Fed’s preferred inflation gauge, at a still stubbornly-high 3.50% rate in 2023, and only falling to 2.50% in 2024, both well above the 2.0% target.



Our View

The Fed has rapidly moved up rates to fight inflation in 2022 after arguably falling behind on this goal. While progress has been made on this front in some components, notably goods, autos and housing, wage inflation remains stubbornly high. This is a focus for the Fed and we expect continued hikes in 2023. The median projection from the Fed remains higher than market expectations. The market actual is pricing in some rate cuts in the latter half of 2023 unlike the Fed which has zero.

We believe the Fed will need to hold rates higher than market expectations as a 2.0% inflation rate will be hard to achieve in 2023. We also believe that recession risks remain elevated as the Fed raises rates early in 2023 and holds longer. We believe that some asset classes, particularly corporate credit, are underpricing this risk. We maintain our current positioning of a slightly short duration bias and neutral to credit. In shorter mandates we continue to have higher exposure to non-treasury holdings as carry should outweigh any credit widening.

[1]Data is as of 10.31.2022. Source: Bureau of Economic Analysis. [2]Data is as of 12.14.2022. Source and textual data: Bloomberg L.P. **Past performance is not indicative of future results.** The views expressed represent the opinions of Sterling Capital Management. Any type of investing involves risk and there are no guarantees that these methods will be successful. Charts are for illustrative purposes only.

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