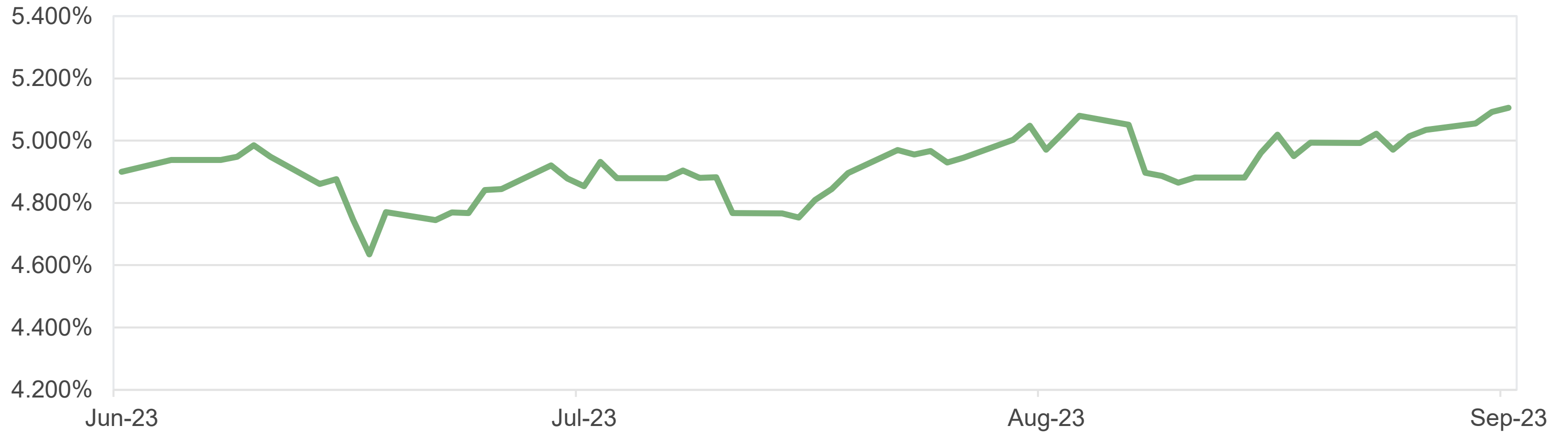
Fed Reiterates-Higher for Longer

September 21, 2023

While the Federal Reserve (Fed) met expectations with a pause/skip this meeting, the real story was the upward movement in both the Fed Funds rate this year and next year. The consensus is now for one more 25 basis point hike in 2023 with the Fed funds rate median at 5.60%. The vote moved from nine members expecting a hike prior to the meeting, to now twelve of the nineteen expecting an additional hike this year. Additionally, the Fed significantly changed their forecast for 2024, from a median of 100 basis points in cuts to just 50 basis points. The statement acknowledges the pickup in economic activity since their July meeting up from a “moderate” pace to now “solid.” Gross Domestic Product (GDP) growth estimates also continued to move higher with 2023 mean estimates now at 2.10%.

Bonds initially sold off and the yield curve steepened on the announcement with the two-year U.S. treasury yield spiking to levels not seen since 2006, hitting almost 5.17%.

2Y Treasury Yield Passes 5%



Our View

The Fed really didn’t offer any surprises in this statement. They have signaled their commitment to keep rates higher for longer throughout 2023. The market has slowly moved closer to this reality but still may be too dovish in the projections for cuts in 2024. We continue to stay up in quality and maintain a neutral to slightly long duration stance.

Data is as of 09.20.2023. Yields are subject to market conditions and are therefore expected to fluctuate. Source: Bloomberg L.P. Chart is for illustrative purposes only.

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