

The Fed's inflation challenges

Quick thoughts on this week's expected U.S. Federal Reserve decision to hike interest rates, from James Camp, CFA, Managing Director of Fixed Income and Strategic Income at Eagle Asset Management:

- Inflation continues to run high, and the situation in Ukraine extends the cycle of higher prices with pressure on commodities and supply chains.
- The only natural course correction (without aggressive Fed tightening) is a dramatic slowdown in consumption. While not the base case, that's a growing possibility.
- It is almost mathematically impossible to get to 2% inflation by year end. Thus, the Fed must tighten aggressively.
- The 10-year U.S. Treasury note is now at 2.10%. The market is clearly more concerned about inflation than about geopolitical issues. The "flight to quality" trade in treasuries was short-lived.
- Inflation is at a 40-year high and the Fed's inflation fighting credibility is challenged.
- The issue for the Fed is how to tighten into a potential slowdown. They missed the window to normalize last summer with their incorrect "transitory" narrative.
- So, I expect a "dovish" tightening – 25 basis points with yet another round of "data dependence" language and maximum flexibility.
- Financial conditions are tightening already, with credit spreads wider, volatility high, and equities under pressure.



About James Camp

- 33 years of industry experience
- Joined Eagle Asset Management in 1997
- B.S., engineering science, Vanderbilt University, M.B.A., finance, Emory University
- Earned Chartered Financial Analyst designation in 1993

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