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Capital Markets Commentary

MEEDER

» Inflation Remains High

» All Eyes on the Fed

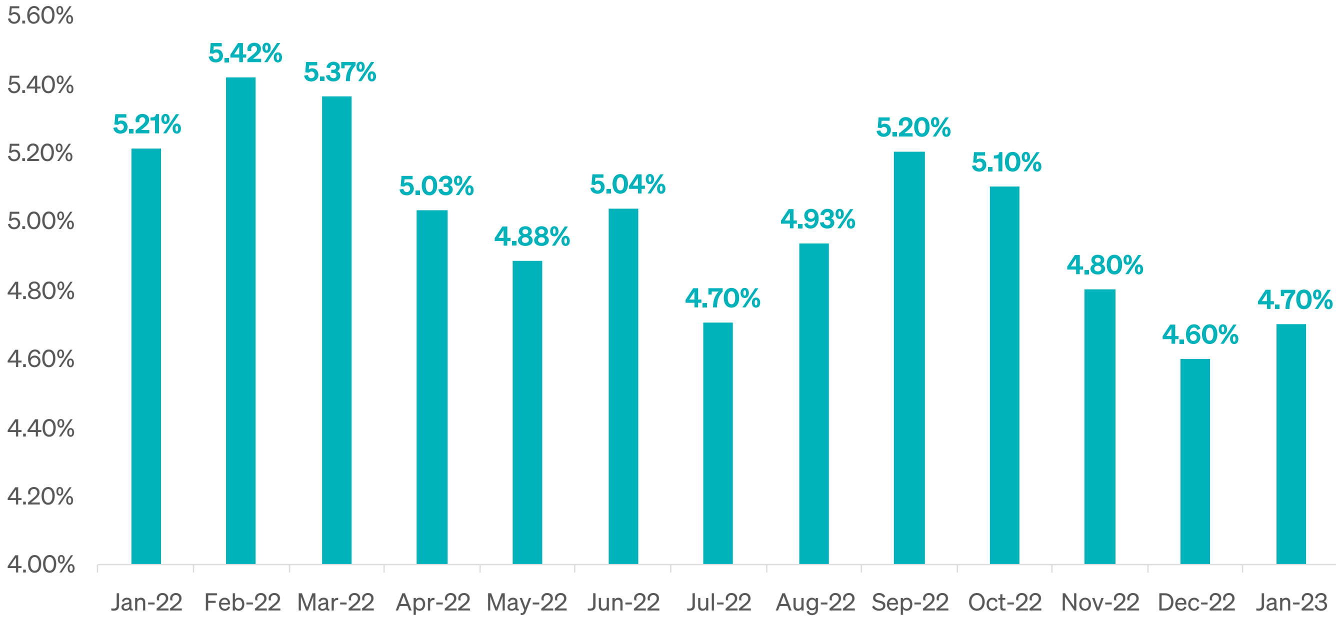
» U.S. Labor Market Still Strong

Inflation remains the top concern for investors in February. The rising interest rate environment is a result of the Fed trying to control inflation and is impacting various segments of the economy. Mortgages are becoming increasingly expensive for homebuyers, sending mortgage demand to a 28-year low.

INFLATION REMAINS HIGH

The PCE Index increased in January, suggesting that interest rates may remain higher for longer. PCE remains the Fed's preferred inflation gauge because it is more sensitive to changes in consumer behavior. Even the Core PCE Index, which removes food and energy costs, increased in January by 0.6% month over month. The new data shocked some investors after the January uptick was higher than anticipated and remained +4.7% above the same time one year ago. The overall trend for Inflation data shows that while it is declining from its highs, it is still well above the Fed's goal of 2%. The Fed's push to contain inflation has included eight interest rate hikes in this tightening cycle.

U.S. CORE PCE INDEX
ANNUAL CHANGE



SOURCE: BEA

ALL EYES ON THE FED

Fed Chair Jerome Powell spoke at the House Financial Services Committee in early March, stating that the terminal rate after the Fed's interest rate hikes will likely be higher than initially anticipated because economic data remains strong. Investors took these remarks seriously because, according to CMEWatch, with nearly 75% of investors shifting their view to anticipating a 0.50% hike instead of just a 0.25% increase at the Fed's March meeting. One day earlier, the same percentage of investors thought it would only be a 0.25% increase.

LABOR MARKETS REMAIN STRONG

The February Non-Farm Payrolls report revealed that the U.S. created 311,000 jobs in February, considerably higher than consensus estimates of 205,000 jobs. This was another indication that the existing Fed interest rate hikes do not seem to be stifling economic growth. Many investors are worried that the Fed will continue with aggressive interest rate hikes after seeing such strong results and will eventually push the economy into a recession. The Fed's March meeting will be highly anticipated as investors will be watching to learn how the FOMC is viewing the current situation so they can adjust their investment strategy accordingly.

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