The final Fed rate hike of 2022

UBS Asset Management I The Fed remains committed to bringing inflation down

The Fed raised rates by a slower pace of 50 basis points to highest level in 15 years.

The Federal Open Market Committee (FOMC) of the US Federal Reserve hiked rates at their 14th December meeting by 50 bps, moving the fed funds target range to 425 bps – 450 bps from 375 bps – 400 bps. The vote for the rate hike was once again unanimous at 12-0.

The meeting statement was largely unchanged from the November meeting. The FOMC decided to keep the language of "ongoing increases" in the federal funds rate, signalling that further increases are likely in the new year. The FOMC did release the latest version of the "dot plot," which contained some interesting observations. Relative to the last forecast in September, the median dot for year-end 2023 rose to 5.125% from 4.625%. Perhaps most notably, all but two FOMC participants expect the fed funds rate to be at 5% or higher by the end of next year. Seven participants had forecasts of 5.375% or higher. For the end of 2024, the median dot moved to 4.125%, up from the 3.645% at the September meeting.

As for the economic projections, median estimate for real GDP for year-end 2023 fell to 0.5% from 1.2% at the September meeting. The median inflation expectation for 2024 as measured by core PCE was higher at 3.5% vs. 3.1% at the last update, while the unemployment rate is projecting to be higher at 4.6% relative to 4.4% prior forecast.

During the press conference, Chair Powell said that the Fed still has "some ways to go" on policy tightening and that the Committee is "not at a sufficiently restrictive policy stance yet" and "will stay the course until the job is done." He mentioned that the size of the rate move at the next meeting in February will depend on the incoming data. Once the Fed reaches the terminal level, he expects the FOMC will maintain a restrictive policy stance for "some time." On inflation, Chair Powell mentioned that FOMC participants viewed the risks to their inflation forecasts to the upside and while there has been a "welcome reduction" in inflation in October and November, the Committee will need to see "substantially more evidence" that inflation is moving durably lower.

Markets gyrated in the wake of the release of the meeting statement and dot plot and Chair Powell's press conference. The S&P 500 finished down 0.59% on the day, while Treasury yields were slightly lower across the curve. Fed funds futures are now showing 32bps of hikes priced in for the February meeting with a year-end 2023 implied rate of 4.34%.

We continue to position our UBS money market funds to take advantage of this rate hike along with future ones.

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