July 2022

The Fed continues to raise rates

UBS Asset Management I The Fed acts on inflationary pressure

The Fed raised rates by 75 basis points for the second consecutive meeting

The Federal Open Market Committee (FOMC) of the US Federal Reserve hiked rates at their 27th July meeting by 75 bps, moving the fed funds target range to 225 bps – 250 bps from 150 bps – 175 bps. The move reflected a FOMC that remains highly focused on reigning in inflationary pressures. The vote for the rate hike was unanimous at 12-0.

The meeting statement was largely unchanged from the June meeting. Importantly, the language stating that the Committee "anticipates that ongoing increases in the target range will be appropriate" remained intact. One small change was that the Fed acknowledged that "recent indicators of spending and production have softened," but also again pointed out that job gains have been "robust" in recent months. In the June Statement, the Fed highlighted that economic activity had "picked up" after moving lower in the first quarter. While the Fed did acknowledge some slowing in economic activity since the last meeting, they did highlight that other components of the economy such as the labor market have been holding up well.

During the press conference, Fed Chair Powell reiterated the Fed's commitment to fighting inflation and remains the key focus at this point. He was asked if he believed the US economy was currently in a recession, but pushed back against that notion. Chair Powell noted that the employment market still remains healthy with strong monthly payroll gains and a still low unemployment rate. This data isn't typical of a recessionary environment. Furthermore, he pointed out that initial reads of GDP do tend to get revised later on, so even if the initial read on second quarter US GDP prints negative, it could be subject to revision.

On the topic of future policy decisions, Chair Powell noted that the Fed will offer "less clear" guidance on rate moves. He did acknowledge that another "unusually large" increase in the fed funds rate could be appropriate at the next meeting, but it would be conditional on the incoming data. There is nearly a two-month window before the next FOMC meeting in September, which will crucially span two employment releases and two CPI prints. Powell did also mention that as the Fed progresses with rate hikes, it will be appropriate to slow the pace of increases at some point. This comment in particular helped to fuel risk assets, with the S&P 500 finishing higher by 2.6% on the day. Fed funds futures are now pricing in 59 bps of tightening for the September meeting. The December 2022 fed funds futures contract is implying a rate of 3.32%, which was 7 bps lower on the day.

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

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