

August 19, 2024

Federal Reserve Officials Wait for Further Confidence as Pivot Point Nears

The July Federal Open Market Committee (FOMC) statement offered no guarantee of a September rate cut, falling well shy of market expectations. The statement suggests Federal Reserve (Fed) officials remain data-dependent and are not yet convinced price pressures will continue to moderate or that labor market conditions have cooled sufficiently to warrant a policy adjustment. With that being said, a September rate cut is still very much on the table, and investors are currently pricing it in with a high level of certainty, according to the CME FedWatch Tool.

While disinflationary progress has been made, the Committee is looking for additional indications of sustainable progress back towards the 2% objective. That's not to say the Fed needs to or will wait until 2% is met, but from their perspective, the sustainability of inflation's improving trajectory remains in question. Thus, while seemingly inclined to provide relief, as well as perpetuate and support current conditions, policymakers will continue to put a heightened level of emphasis on the incoming data between now and the September 18 FOMC meeting. "We're getting closer to the point at which it'll be appropriate to reduce our policy rate, but we're not quite at that point," Powell said.

As the Fed continues to assess incoming data, the Kansas City Fed's Jackson Hole Conference on August 22-24 will provide an opportunity to calibrate messaging that will guide market expectations ahead of the September policy meeting.

That being said, the onus is on the data to convince policy makers not to make a move in September. Meaning that even a minimal improvement in price pressures will likely be enough to prompt the proverbial green light to cut rates. In fact, coupled with a cooler July employment report, if the more favorable headline descent seen in this week's Consumer Price Index (CPI) and Producer Price Index (PPI) data is confirmed by the July Personal Consumption Expenditures report released on August 30, even the skeptics among the Committee are going to find it difficult to fend off the Doves ready to initiate liftoff towards a less-firm policy stance.

Of course, even if the Fed did opt to open the door to rate cuts as early as September, policy adjustments will likely fall short of the market's desire to rush back to neutral, let alone revert back to an accommodative stance anytime soon. Even under the more favorable inflation scenario of ongoing – albeit minimal – easing in price pressures, the Fed will likely opt to move in a slow and tempered pace, keeping rates well above neutral out beyond 2025, if not longer.

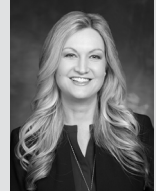
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This week, we take a look at the latest Fed commentary in the wake of a cooler-than-expected July jobs report, a more positive read on jobless claims and, broadly, an improvement in the July CPI and PPI data.

Economic
INSIGHT



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STIFEL

FOMC HAWKS & DOVES

HAWKISH



Loretta Mester
Cleveland
Fed President

"I think the risks to inflation are still to the upside ... I think the risk to the labor market is dual sided ... We've made pretty good progress on inflation in the last two years. It's still too high."

– Speaking to Bloomberg Business, June 14, 2024



Michelle Bowman
Board of Governors

"My baseline outlook continues to be that inflation will decline further with the policy rate held steady, but I still see a number of upside inflation risks that affect my outlook."

– Conference in Key Biscayne Florida, May 3, 2024



Jeffrey Schmid
Kansas City
Fed President

"I would need to see multiple positive inflation readings suggesting that the disinflation process is on track to support a rate cut."

– Milken Institute Conference, May 7, 2024



Neel Kashkari
Minneapolis
Fed President

"CPI inflation for June points to encouraging further progress towards lower inflation ... I will be looking for more evidence that inflation can be expected to converge to 2% going forward."

– Little Rock Regional Chamber of Congress, July 11, 2024



Phillip Jefferson
Board of Governors

"We continue to look for evidence that inflation is going to return to our 2% target. And until we have that, I think it is appropriate to keep the policy rate in restrictive territory."

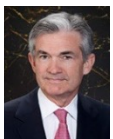
– Cleveland Fed Event, May 13, 2024



Alberto Musalem
St. Louis
Fed President

"Over time, I expect inflation to ease back towards the Fed's 2% objective ... I am prepared to be patient as this process plays out."

– Kansas City Fed Agricultural Summit, May 14, 2024



Jerome Powell
Federal Reserve
Chairman

"The question will be whether the totality of the data, the evolving outlook, and the balance of risks are consistent with rising confidence on inflation and maintaining a solid labor market. If that test is met, a reduction in our policy rate could be on the table as soon as the next meeting in September."

– FOMC Press Conference, July 31, 2024

GLOSSARY

CPI – Consumer Price Index

FOMC – Federal Open Market Committee

PPI – Producer Price Index



John Williams
New York
Fed President

“So I would say that the underlying trend in inflation is now more back on track towards moving to that 2% goal, but the inflation data have been moving one way or the other. So really got to keep watching how that trend continues to progress.”

– Wall Street Journal Interview, July 17, 2024



Thomas Barkin
Richmond
Fed President

“I think you have got some time in a healthy economy to figure out whether this is an economy that is gently moving into a normalizing state that will allow you in a steady, deliberate way to normalize rates ... Or is this one where you really do have to lean into it.”

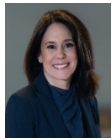
– NABE Virtual Event, August 9, 2024



Susan Collins
Boston
Fed President

“If the data continue the way that I expect, I do believe that it will be appropriate soon to begin adjusting policy and easing how restrictive the policy is ... My outlook is for continued gradual reduction back to our 2% target amid a healthy labor market.”

– Providence Journal Interview, August 9, 2024



Lorie Logan
Dallas
Fed President

“From a monetary policy perspective, we’re in a good position, we’re in a flexible position to watch the data and be patient ... We’re going to need to see several months of that data to really have confidence in our outlook that we’re headed to 2%.”

– Speaking at an event in Austin, June 18, 2024



Patrick Harker
Philadelphia
Fed President

“I see two cuts, or none, for this year as quite possible if the data break one way or another ... So, again, we will remain data dependent.”

– Philadelphia Fed Event, June 17, 2024



Raphael Bostic
Atlanta
Fed President

“It is coming. If the economy evolves as I expect, you all will have bigger smiles on your face by the end of the year ... We always knew that was going to take time. Fortunately, in the last three or four months, inflation has returned back to that trajectory that we saw in December. It gives me more confidence that we can get to our target, which is 2%.”

– Conference of African American Financial Professionals, August 13, 2024



Lisa Cook
Board of Governors

“With significant progress on inflation and the labor market cooling gradually, at some point it will be appropriate to reduce the level of policy restriction to maintain a healthy balance in the economy.”

– Economic Club of New York Event, June 25, 2024



Christopher Waller
Board of Governors

“Current data are consistent with achieving a soft landing, and I will be looking for data over the next couple months to buttress this view ... While I don’t believe we have reached our final destination, I do believe we are getting closer to the time when a cut in the policy rate is warranted.”

– Kansas City Fed Event, July 17, 2024



Adriana Kugler
Board of Governors

“If economic conditions continue to evolve in this favorable manner with more rapid disinflation, as evidenced in the inflation data of the past three months, and employment softening but remaining resilient as seen in the past few jobs reports, I anticipate that it will be appropriate to begin easing monetary policy later this year.”

– NABE Event, July 16, 2024



Austan Goolsbee
Chicago
Fed President

“The Fed’s job is very straightforward: maximize employment, stabilize prices and maintain financial stability. That’s what we’re going to do ... So if the conditions collectively start coming in like that on the through line, there’s deterioration on any of those parts, we’re going to fix it.”

– CNBC Interview, August 5, 2024



Mary Daly
San Francisco
Fed President

“Policy adjustments will be necessary in the coming quarters ... We have now confirmed that the labor market is slowing, and it is extremely important that we not let it slow so much that it tips itself into a downturn.”

– Hawaii Executive Collaborative, August 5, 2024



Michael Barr
Board of Governors

Michael Barr has not spoken about monetary policy in recent months. His latest comments are in regards to third-party relationships to prevent customer harm. Speaking on July 9 at a financial conference in Washington D.C. “We have, unfortunately, seen examples of failures of banks to effectively manage the risks of partnerships with other companies that support services to their end customers, and these failures have resulted in customer harm.”



Federal Reserve 2024

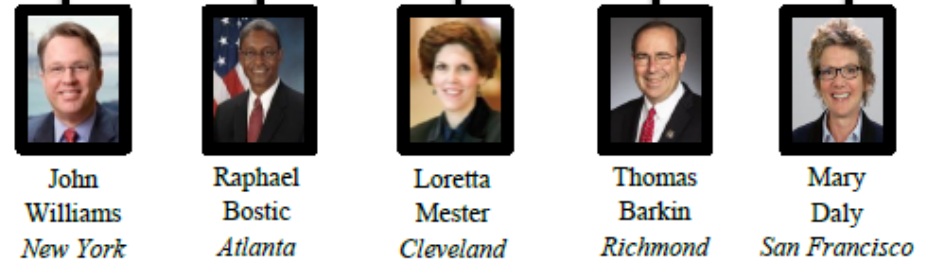
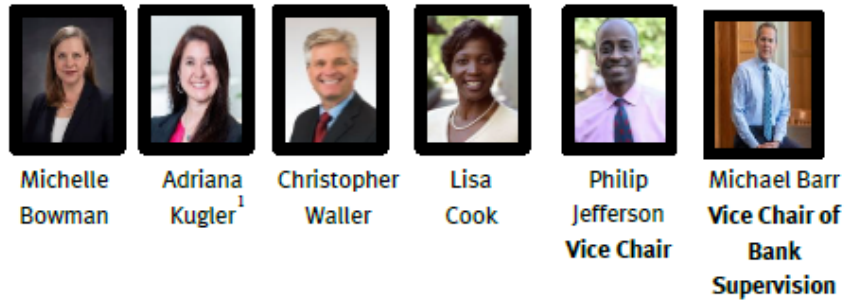
Board of Governors



Jerome Powell
Chairman

District Presidents

Voting



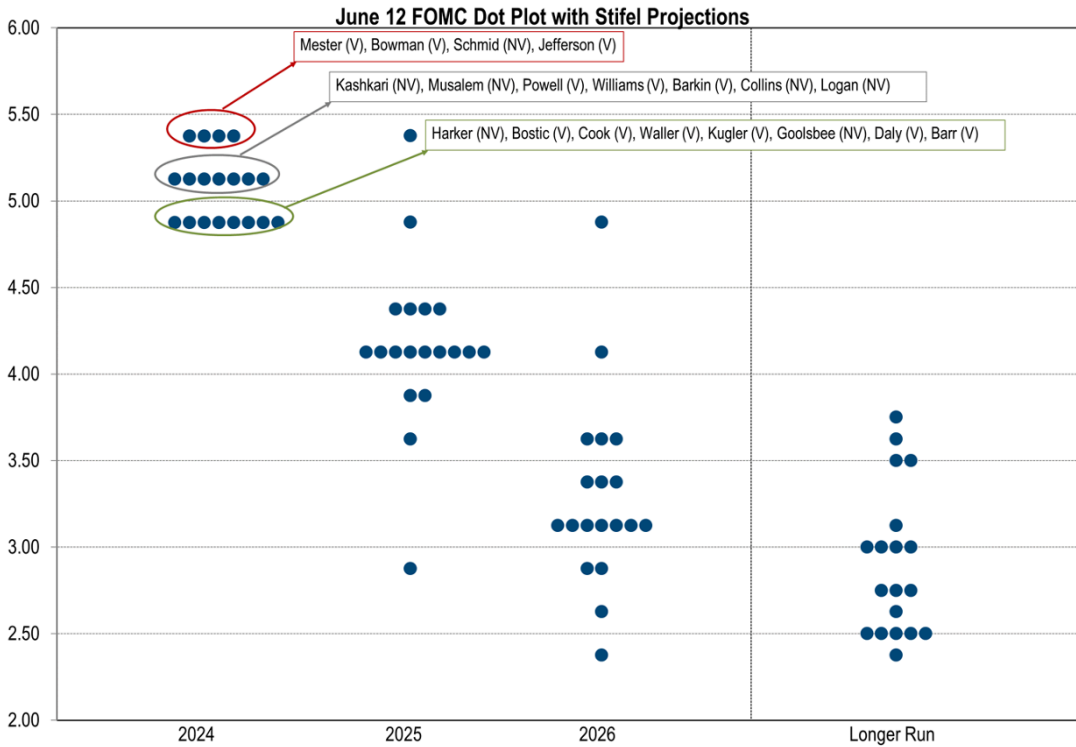
Non-Voting



¹Adriana Kugler replaced Lael Brainard who submitted her resignation on February 14, 2023 as Vice Chair and a member of the Federal Reserve Board. Brainard currently serves as President Biden's top economic adviser as the Director of the National Economic Council.

²Alberto Musalem took office as the St. Louis Fed President on April 2, 2024 replacing James Bullard. Bullard stepped down as St. Louis Fed President on August 14, 2023 after 15 years to serve as a dean at Purdue University.

³Jeffrey Schmid took office as the Kansas City Fed President on August 21, 2023 replacing Esther George. George served from 2011-2023 and faced mandatory retirement from the Federal Reserve in 2023.



Note: Each shaded circle indicates the value (rounded to the nearest 1/8 percentage point) of an individual FOMC participant's judgment of the midpoint of the appropriate target range for the federal funds rate or the appropriate target level for the federal funds rate at the end of the specified calendar year or over the longer run.

Source: Federal Reserve

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