

Federal Reserve Raises Rates by 75 Basis Points

Special Report | July 2022

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Earlier today, the Federal Reserve (Fed) announced that it will raise its benchmark federal funds rate by 0.75% (75 basis points); a move that was largely anticipated by market participants.

This was the latest in a series of hikes that began in March and were geared towards trimming the money supply in an effort to mitigate historically strong inflationary pressures. Today's move results in the largest back-to-back rate increases in decades and a continuation of the most aggressive monetary policy tightening by the Fed since the 1980s, the last time inflation was as rampant as it is in the current economic environment.

The Fed's current rate hike cycle occurs as recession worries have worsened and mixed economic signals remain. Even the labor market, which remains a generally bright spot, has experienced some setbacks in recent weeks in terms of initial jobless claims and layoff announcements from large employers. Some are still concerned that a wage-price spiral could emerge – this theory suggests that as consumers expect inflation to persist, they will demand higher wages which can further exacerbate price increases. Moreover, rising prices, especially related to food and energy, remain a serious concern for the consumer, and by extension, this will likely continue to have an adverse impact on corporate earnings in the coming quarters.

The Fed's greatest challenge remains how to fight inflation by reducing demand through higher rates without sending the economy into a deep recession.

With this backdrop, we believe that corporate fundamentals remain intact. The Fed has signaled that additional rate hikes may be appropriate. Therefore, we expect that the opportunity cost of holding excess liquidity will remain high. Putting money to work on the front-end of the curve remains an attractive alternative as overnight rates continue to reflect higher short-term rates in response to the current rate hike cycle.

If you have questions about this report or wish to discuss recent events in greater detail, please reach out to your PFMAM representative.



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