

# BULL & BEAR *Bulletin*



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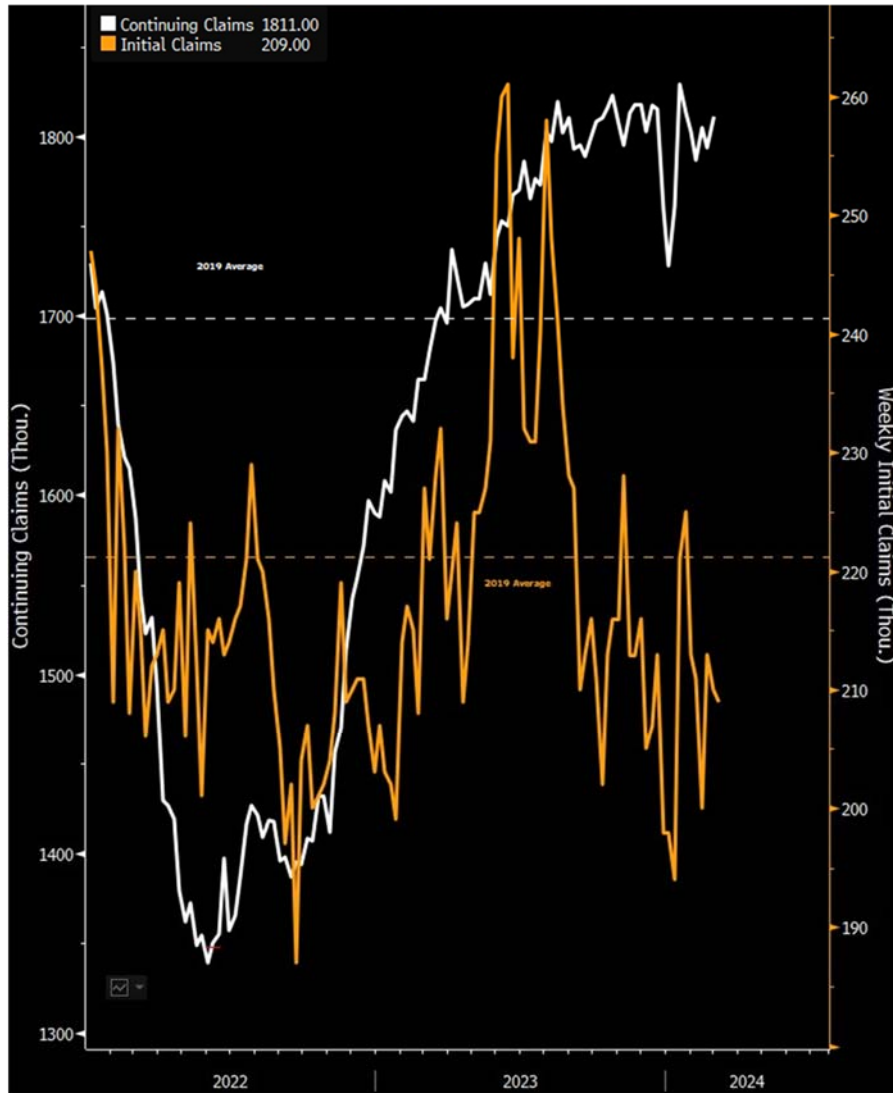
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## Higher for Longer Persists

Recently, there has been increased speculation about when the Fed might cut the short-term interest rate. Fed Funds futures are currently pricing in a reasonable chance of a cut in June. It seems as though most market participants agree that the Fed will likely cut this year, but disagree on the month of the first cut. Recent data makes it difficult to assess whether or not the Federal Reserve is achieving objectives around the dual mandate for price stability and full employment. Depending on the data set, there can be corroborating data, which underscores both a strengthening and weakening economy.

Bulls believe that the tightening monetary policy by the Fed has succeeded in arriving at a restrictive policy interest rate which should continue to bring inflation down. From a high of 9.1% in June 2022, CPI on a year-over-year basis fell to 3.2% in February. They believe that the recent uptrend in CPI month-over-month data is insignificant and will diminish over time. Additionally, the labor market has also been weakening (see graph), whereas continuing claims have been rising since May 2022. This means that the unemployed are taking longer to find a job, a sign of an easing labor market. This may allow the Fed to efficiently cut rates to increase economic activity and loosen financial conditions.

Bears will say that the Fed will not be able to cut rates so soon and hold for longer, because inflation is sticky and has been on an uptrend since October 2023. They also point to the fact that the month-over-month change in CPI for February was 0.4%, which is 4.8% annualized. This may be contrary to a disinflationary trend should it persist. They also caution on cutting rates too soon as a resurgence of inflation similar to the early 80's could be difficult for markets to absorb should they have to price in actual rate hikes again. These factors can complicate the Fed's decision on when to start loosening monetary policy.



Source: Bloomberg

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