Federal Reserve (Fed) Announces its Latest Interest Rate Hike

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On December 14, the Federal Open Market Committee (FOMC) announced a 50-basis point (bps) increase in the federal funds rate, bringing its key monetary policy tool to a new target range of 4.25% to 4.50%.

The decision is the latest in a year defined by aggressive rate hikes, with the FOMC initiating 4.25% of aggregate hikes in 2022. The actions have sought to slow demand-induced inflation, while also considering the potential adverse impact on U.S. economic growth – seeking a so-called "soft landing" for the U.S. economy.

This smaller increase, compared to the unusually large 75 bps hikes that highlighted the prior four meetings, suggests the FOMC believes that monetary policy is approaching a level that is sufficiently restrictive to quell inflation. Accompanying the announcement was an update to the Fed's Summary of Economic Projections (SEP) for key economic and inflation indicators and FOMC participants' assessment of the appropriate level of the fed funds rate through the end of 2025.

The updated SEP suggests that additional rate hikes will likely be appropriate, ending around the 5-5.25% range, a more elevated level than the FOMC had previously projected. Based on Fed Chair Jerome Powell's comments, the FOMC may now favor smaller rate hikes of 25-50 bps as it seeks to calibrate policy measures as we approach the terminal rate in the first half of 2023.

Reach out to your relationship management team today to discuss how you may invest during this rising rate environment to seek increased yields while maintaining focus on the safety and liquidity of your funds.