

The December inflation report had some encouraging news. It showed that consumer prices trended lower for the month, but more importantly, it confirmed that overall prices have been trending lower for the past six months.

Now the ball is in the Fed's court. The Fed Governors need to determine how much further they need to go with higher interest rates, which have been used to slow the economy and tame inflation.

After the inflation report was released, traders quickly adjusted their outlook for what the Fed will do next.

In the table, you can see the traders now see short-term rates reaching a high of between 4.75% and 5% in 2023. Late last year, some feared that the "terminal" rate would be over 5%. Today, rates are between 4.25% and 4.5%

Meeting Probabilities

Target rate probabilities for the eight FOMC meetings

With inflation trending lower, what will the Fed do next?

FOMC Meeting Date	4 - 4.25%	4.25 - 4.5%	4.5 - 4.75%	4.75 - 5%	5 - 5.25%
2/1/2023	0.0%	0.0%	94.2%	5.8%	0.0%
3/22/2023	0.0%	0.0%	19.1%	76.3%	4.6%
5/3/2023	0.0%	0.0%	11.9%	54.7%	31.6%
6/14/2023	0.0%	0.0%	11.0%	51.5%	33.4%
7/26/2023	0.0%	3.0%	22.0%	46.5%	25.4%
9/20/2023	1.3%	11.4%	32.8%	37.2%	15.5%
11/1/2023	6.0%	21.4%	34.9%	27.1%	9.0%
12/13/2023	21.1%	34.6%	27.2%	9.4%	1.1%

The CME Group publishes a table that shows probability of the Federal Funds Rate's level by the FOMC's scheduled meeting dates. For example, for the February 1, 2023 FOMC meeting, traders have placed a 94% probability that the Federal Funds rate will fall between 4.5% and 4.75%. The green highlight shows the highest probability, by meeting date.

The CME Group's table changes on a daily basis. Probabilities are based on assumptions and subject to revisions. Financial, economic, political, and regulatory issues may cause the actual results to differ from the expectations expressed in the table. The data and output from this tool does not constitute investment advice and is not a personal recommendation from CME Group. Any investment activities based on this table are at the sole risk of the investor. Partial table shown for illustrative purposes.

Source: CME Group, January 12, 2023

After reviewing inflation and other economic data, if the Fed concludes that it's time to pivot on monetary policy, that decision would be expected to influence both the stock and bond markets. I'm keeping an eye on what's going on with the Fed and will continue to provide you updates.

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