First Citizens Wealth Management

November 2022

# Making Sense

**THIS MONTH'S WEBINAR: (WATCH IT HERE.)**

- Economic update
- Where do markets go from here?

**WHAT'S NEXT?**

**2023 Market Outlook Coming Mid-December**

## What Will It Take for the Fed to Stop Hiking Rates?

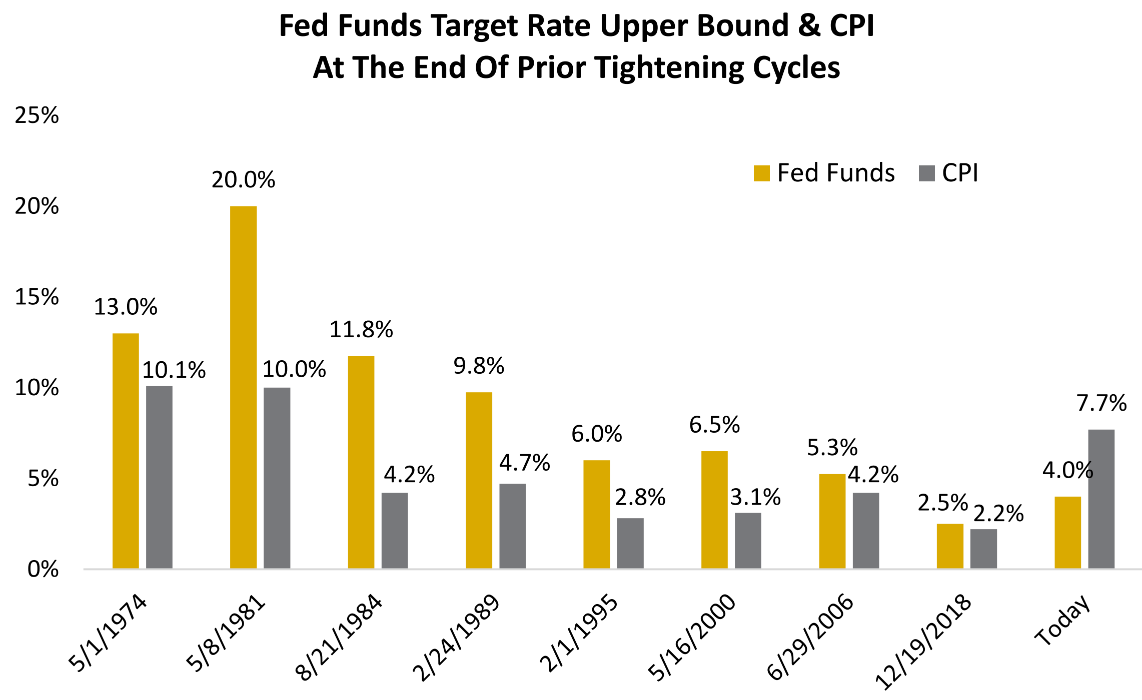
**The Federal Reserve has aggressively hiked the federal funds rate since March of this year to curb record-high inflation.** Now that inflation is slowly moving in the right direction, many ask when the Fed might pivot on policy tightening. As stated in our response to October's better-than-expected Consumer Price Index report (CPI), the rate of inflation remains far too high, and we believe the Federal Reserve will keep monetary policy tight until it is clearly and persistently in a downward trend.

**What prerequisite is there for the Fed to stop hiking the federal funds rate?** One thing to watch for is positive real interest rates. The Fed is closely monitoring the relationship between the federal funds rate and inflation. As shown in Figure 1, currently, the federal funds rate is significantly lower than the rate of inflation according to this month's CPI report. Ideally, the Fed would like to see interest rates move above inflation rates, which has been a prerequisite for the end of prior tightening cycles as the chart shows. Consensus believes the rate of inflation will likely continue to moderate, but the Fed needs to see a sustained downtrend before easing policy. The Fed will likely continue its hawkish tone to contain all-important inflation expectations.

In December, we'll be watching November's CPI report as well as the Federal Reserve's final meeting for 2022.

**Bottomline for markets:** Wall Street analysts' bottom-up consensus expectation for S&P 500 12-months forward **is 4,461 or ~13% return from close on November 10th close of 3,956.**[i]

**Figure 1**[ii]**:**



Capital Management Group | First Citizens Bank | 8510 Colonnade Center Drive | Raleigh, NC 27615
**Brent Ciliano, CFA** | SVP, Chief Investment Officer
brent.ciliano@firstcitizens.com | 919.716.2650

First Citizens Bank | 8510 Colonnade Center Drive | Raleigh, NC 27615
**Phillip Neuhart | SVP, Director of Market and Economic Research**
phillip.neuhart@firstcitizens.com | 919.716.2403



i FactSet 11/11/22
ii Strategas Research Partners