Making **Sense**

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Markets Are Starting to Believe the Fed

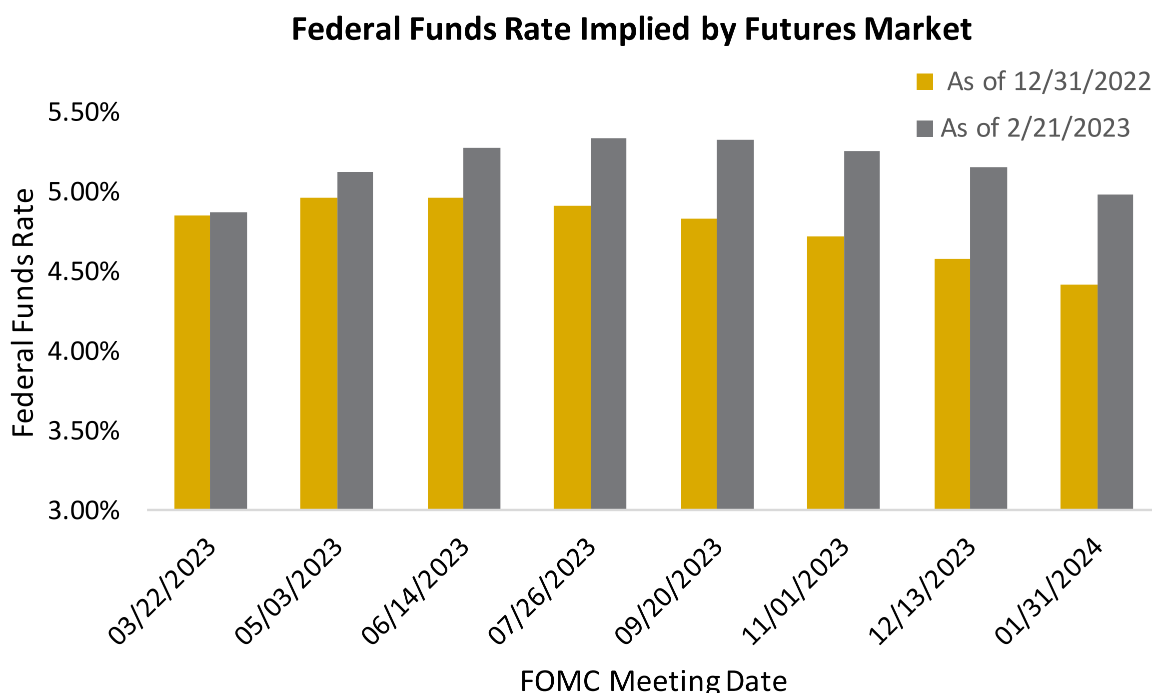
Markets began 2023 with vigor but have recently seen volatility return. Why is that? We believe markets are reacting to the confluence of better US economic data as well as the release of January's consumer price index print which showed inflation remains high and the rate of moderation has slowed. As such, market participants now expect more rate hikes from the Federal Reserve this year than previously priced into markets. Since the Federal Reserve's meeting earlier this month, market expectations are showing signs of stronger alignment with statements from the Fed, whereas prior to this month, futures did not accept that the Federal Reserve would continue hiking rates or keep rates high for longer. We believe that shift is driving much of the volatility in both equity and fixed income markets.

In **Figure 1**, the gold bars illustrate the futures market expectations as of the end of 2022 for the federal funds rate at upcoming Federal Reserve meetings. The gray bars track the same expectations, but as of February 21, 2023. In its December meeting, the Federal Reserve projected that the federal funds rate would be above 5% by the end of 2023—meaning multiple hikes this year. As of December 31, the market expected the rate to be near 4.5% at year-end. As of this week, that expectation moved above 5%.

Our Bottom Line for Markets

Our base case S&P 500 price target for the next twelve months is 4,100. **We continue to believe markets will experience a bumpy road this year. Having the right balance between stocks and bonds as part of a thoughtful and strategic financial plan will help you reach your return goals.**

Figure 1[i]



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[i] : Bloomberg