Ropes Wealth Reviews Powell's Persistent Price Stability Message from Jackson Hole

Fed Chairman Jerome Powell delivered a widely anticipated address today at the annual economic symposium of central bankers, policymakers, academics, and economists. His message from Jackson Hole, Wyoming was clear and unequivocal: The Fed remains committed to reinstating price stability.

Although there is some evidence of cooling inflation with the CPI declining from 9.1% in June to 8.5% in July, Powell reflected that price pressures are still too high, and the Fed remains very focused on bringing that number down significantly. In fact, Powell was clear that July's inflation reports fell well short of the Committee's threshold needed to be convinced inflation is on a meaningful downward trajectory back towards the preferred 2% range.

As such, Powell emphasized there is still much work to be done as inflation has continued to spread through the economy. He noted that restoring price stability *"will take time"* and notably said that price stability is the *"bedrock"* of the economy.

Powell signaled to investors looking for a slowdown in interest rate increases that they should not count out another *"unusually large"* increase in rates at next month's Fed meeting, though he did concede that all policy decisions will be made based on the incoming data.

At some point, he added, it will be likely appropriate to slow the pace of rate hikes to assess current conditions and the earlier impact of Fed policy.

Powell was specific in highlighting that *"neutral"* was not the appropriate level *"to stop or pause"* interest rate hikes and said a restrictive policy stance would likely be appropriate for some time, potentially causing *"pain"* for households and businesses with a *"sustained period of below-trend growth"* and some softening in labor market conditions. In other words, the Fed Funds target rate is perceived by many to be at the neutral rate today in the current range of 2.25%-2.50% and they are going to go beyond that.

Why? Because failure to regain price stability would mean *"far greater pain"* for the American people and economy. The 1970s period of high inflation taught us that the Fed plays a critical role in delivering stable prices, that the Fed must keep at it until the job is done, and the public must perceive long-run inflation expectations as well-anchored, or else.

All of these messages left markets swooning a bit as investors still do not have a clear sense of how much further the Fed will go. The broader message was a steady climb higher, but incoming data will dictate the pace and magnitude of the September increase as well as future rate hikes.

We think the Fed will push from 2.25%-2.50% to a range closer to 3.75%-4.00% as they attempt to normalize price conditions without cratering the economy. We suspect the Fed raises interest rates by 0.75% in September and then pivots to smaller hikes that come in 0.50% or 0.25% increments into 2023. Importantly, we believe the slowdown caused by these increases will be short and shallow, though we want to manage expectations that what lies on the other side is not likely a boom but a return to a solidly average economy. For this reason, we are seeking out investments in equity funds and securities that are high quality, that can deliver above average growth and have a history of operating success that is not reliant on the juice of low interest rates or governmentfinanced stimulus. We think diversification and balance remains crucial as well, as the equity market price reset this year, while substantial, was not enough to make all market segments cheap and a screaming buy. Discipline and security selection are driving our day-to-day focus on your behalf as we strive to deliver a portfolio allocation that navigates this period with success.

Thank you for your interest in our investment commentary. If you would like to speak personally with a member of our team at any time, please click **here**.

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