



(UBS)

# Fed cuts on track despite Powell comments and inflation disappointment

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## **US inflation data last week were less reassuring than investors had expected.**

Core prices, which excluding volatile food and energy, rose 0.3% month over month in October. This was the third consecutive month that underlying inflation has risen at this pace—taking the three-month annualized rate to 3.6% from just 1.6% three months ago.

Markets also scaled back expectations over the speed of Fed easing after chair Jerome Powell said the path toward lower inflation could be “bumpy” and the strength of the economy meant there was no “hurry” to lower rates. We don’t believe either the inflation release or Powell’s remarks have markedly changed the trajectory for monetary policy.

In our view, the most recent price data are still good enough to permit the Fed to cut at its next policy meeting, which concludes on 18 December. In addition, we expect the inflation data to soften again in the coming months, particularly as price increases for shelter moderate. Assuming this happens, the Fed should be able to ease rates by 100 basis points further in 2025. At current levels, interest rates are still restrictive, leaving room for cuts to bring monetary policy back to the neutral rate that neither stimulates nor dampens growth.

*Our view: Central banks around the world are cutting interest rates, and we expect the trend to continue. With returns on cash falling, investors should act to invest excess cash, money-market holdings, and expiring fixed-term deposits.*

For more, see the [Weekly Global: Building resilient portfolios as red sweep reshapes markets](#), 18 November, 2024.

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