A combination of Fed rate cuts and continued economic growth should support equities into next year. (UBS)

Despite mixed inflation data, Fed remains on track for rate cuts

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Higher-than-expected consumer price index data released on Thursday added to recent concerns that the Federal Reserve may be more hesitant in cutting rates. The core consumer price index (CPI) rose by 0.3% in September, above the consensus forecast and unchanged on the prior month.

The annual core rate even accelerated to 3.3% for September, from 3.2% in August. That follows stronger employment data from the prior week.

But whether the Fed decides to reduce rates at a faster or more gradual pace, the direction of travel remains unchanged, in our view. Price pressures continue to subside. Despite some disappointments, last week's inflation data did show headline inflation easing to 2.4%, its lowest level since 2021.

Top Fed officials have also signaled confidence in the trend toward moderating inflation, with New York Fed President John Williams saying there had been "pretty steady" progress. The Fed's favorite measure of inflation—the personal consumption expenditure index—was also more reassuring than the CPI in August. A repeat of this also looks possible for September. Finally, the minutes of the Fed's last meeting underlined a desire by top officials to move rates down from current restrictive levels.

Takeaway: A combination of Fed rate cuts and continued economic growth should support equities into next year.

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Important information