

February 20, 2024 – Economic Commentary

Mea Culpa. There is no way around the fact that financial markets did NOT like the upside miss on both the CPI and PPI numbers last week, despite the protestation of economists that the numbers simply reflected the inevitable bumps in the road on the way to 2% inflation. Data being released this week will do little to quell the market's unease over the near-term path for interest rates, and the FOMC minutes couldn't arrive at a more interesting time. It will require some perseverance to focus on the real substance of the likely FOMC message, specifically that the Fed is not going to readily abandon the fight to get inflation down and that this should be an argument against 10 yr Treasury rates rising to uncomfortable levels (the real culprit behind last Tuesday's market meltdown.) With all this renewed focus on US monetary policy, it is important to also keep in mind the actions of the ECB. As these notes have highlighted, the economic outlook in Europe has been deteriorating and ECB President Lagarde has now made this official, releasing notable statements revising the outlook for both inflation and economic growth downward. Although there is no hard and fast rule that monetary policy in the US and Europe have to be coordinated, the global flow of capital often dictates that there will be a reasonable amount of collaboration on the script. As such, the ECB outlook is consistent with the Fed's stated intentions to also lower interest rates later in the year— but not now.

Data to Watch:

1. Conference Board Leading Economic Index for January, released Tuesday, February 20
2. Minutes of the January 31 Federal Open Market Committee meeting, released Wednesday, February 21
3. S&P Global Purchasing Managers index (Preliminary) for US Services Sector in February, released Thursday, February 22

Suggested Reading:

1. [Winter 2024 Economic Forecast: A delayed rebound in growth amid faster easing of inflation](#)
2. [Tougher Rent Laws Are Behind Trouble at NYCB](#)
3. [The Great Compression](#)

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