Key Questions

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Will the Fed Achieve Complete "Inflation Totality"?

George Mateyo, Chief Investment Officer

Over one thousand years before the birth of Christ, according to a clay tablet found in modern Syria, the first solar eclipse was recorded, although some accounts suggest that an eclipse may have occurred considerably earlier. Regardless of the precise date on which humans first observed the passage of the Moon between the Earth and the Sun, solar eclipses have coincided with historically significant events, including the exact date of Good Friday (although there is debate over this, too).

Nevertheless, a few days from now, on a specific date and at an exact time, scientists and recreational stargazers alike will tilt their heads skyward and observe the Moon completely blocking the Sun. If the Moon were in a completely circular orbit, total solar eclipses would occur relatively frequently, roughly once per month.

But because the Moon's orbit is not completely circular, total solar eclipses are rare, on average occurring every 2-3 years. What's even rarer is a total solar eclipse happening at the same exact place – this happens only once every 360 to 410 years!

Moreover, for a total solar eclipse to be considered "total", the Moon must completely block the Sun from the Earth. In simple terms, 99.99% blockage is not considered "total"; 100% obstruction is required. And during a total solar eclipse, completely totality occurs on a very narrow path on the surface of the Earth referred to as the "path of totality"[1].

Given these stringent requirements, combined with the profound rarity with which a total solar eclipse occurs, complete solar eclipses are heralded as major economic events. According to one source (the self- proclaimed "world's only solar eclipse journalist"), the solar eclipse set to occur on April 8, 2024 will an equivalent impact of "50 Super Bowls happening at the same time across the country"[2] with several of the 15 states that fall within the "path of totality" projecting an economic boon of well over $100 million. "Totality will be totally huge!" would be an understandable refrain uttered by many economic development officers across the country.

Perhaps just as rare as a total solar eclipse might be inflation completely returning to the oft-cited 2% target of the Federal Reserve ("the Fed"). While we profess some glibness when making this statement, loyal readers might acknowledge that we've written extensively on the topic, and perhaps justifiably so, for inflation has been a vexing issue for policymakers, business leaders, and consumers for much of the past four years. Furthermore, inflation hurts everyone and is a main reason behind some people's gloomy assessment of the US economy despite record high stock prices and near-record lows in unemployment.

In seeking to fulfill one half of its congressionally-established its mandate of "price stability", (the other half being "maximum employment") the Fed targets inflation of 2%, a target that was established a mere 12 years ago. And for the first nine of those years, inflation was comfortably close to target. Following the Covid-19 pandemic, however, like so many other things, inflation behaved dramatically differently.

At its peak, inflation would increase nearly 7%, and while it has receded, the latest reading of 3.8% is still clearly above the Fed's target. What's more, in two of the more recent inflation reports, inflation was higher than expected[3].

Meanwhile, in the Fed’s recent update on the economy, they acknowledged that inflation was proving more difficult to slay suggesting “inflation totality” (or 2%) may also be difficult to achieve. Yet, in the same update, the Fed also upped its outlook for economic growth while maintaining its stance that interest rates would be lowered sometime later this year. In doing so, one might argue that by acknowledging inflation is “stickier” at the same time that interest rates will be lowered, the Fed may implicitly be altering its 2% target, or changing it definition of “totality” (to extend our metaphor).

In our view, the Fed is unlikely to officially make such a move for three reasons: First, while the Fed is a political institution, it takes great measures to remain non-partisan, and because this is an election year, it would be highly uncharacteristic for the Fed to alter such a pivotal policy amid election-year theatrics. Relatedly, in seeking to remain independent, the Fed also guards its integrity extremely carefully. And thirdly, there is still the possibility that the Fed’s 2% will be achieved.

That said, as we cited in our 2024 Outlook, “we do not believe that inflation will quickly fall to, and remain at or below, the Fed’s 2% target for a prolonged period of time, absent another economic shock that results in a spike in unemployment.” If anything, based on the ongoing economic resilience, it is possible the Fed may alter its forecast for rate cuts without altering its inflation 2% target. This would likely be a jolt to many market participants. And thus, just as people are strongly advised to refrain from staring directly at the sun without proper the equipment, investors should refrain from assuming too much risk and navigating what may be some bumpy market conditions ahead without a properly diversified portfolio.

[1]For more information on solar eclipses, please refer to https://science.nasa.gov/eclipses/future-eclipses/eclipse-2024/

[2]“Eclipse 2024 will be like 50 Super Bowls happening at the same time.” Jamie Carter

[3]Bureau of Labor Statistics (March 12, 2024)

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