nuveen
A TIAA Company

BREAKING NEWS
26 July 2023

The Fed hikes again as expected

The U.S. Federal Reserve raised interest rates at today's policy meeting, as expected. The committee left open the possibility of one more hike later this year.

Tony Rodriguez
Head of Fixed Income Strategy

WHAT HAPPENED?

The U.S. Federal Reserve increased the target range for the policy rate to a 22-year high of 5.25% - 5.50% today. The policy statement contained minimal changes to key wording, and Chair Jerome Powell continued to signal reasonably high odds of another rate hike later this year.

The policy statement continues to characterize inflation as "elevated," similar to recent months. On growth, the statement described the recent trend as "moderate" rather than "modest." This represents a miniscule, but material, upgrade in the characterization. The language describing the policy outlook remained unchanged, discussing "additional policy firming that may be appropriate."

In his press conference, Chair Powell emphasized that the Fed remains committed to decreasing inflation to the 2% target. He declined to explicitly signal another hike at the upcoming September meeting, but he said the FOMC is prepared to hike again if warranted. The committee's latest projections, from June, indicated expectations for one more hike from here.

RECENT DATA HAVE BEEN SUPPORTIVE

The data released during the intermeeting period broadly supported the Fed's prior economic projections. The committee had penciled in core PCE inflation of 3.9% by year-end, along with a small increase in the unemployment rate to 4.1%.

The June CPI report showed a healthy degree of disinflation, with core price inflation slowing to +4.8% year-over-year, the slowest rate since 2021. Encouragingly, other measures of underlying price pressure, such as the median CPI and core services ex-housing, also moderated.

Meanwhile, the labor market has remained strong. Initial jobless claims rose in June, suggesting some softening in momentum, but they have improved over recent weeks. Headline job creation has also remained strong. Survey measures of economic activity have weakened, suggesting some slowdown in activity, albeit from strong levels.

The economic outlook remains healthy, with growth slowing but not collapsing. This is what the Fed wants, and it should be sufficient to continue bringing inflation down over the balance of the year. We continue to forecast a material growth slowdown over coming quarters and a year-end core inflation rate near 4%.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.
NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE

WHAT DOES THIS MEAN FOR INVESTORS?

With the Fed inching closer to the end of its rate hikes and the economic backdrop remaining uncertain, volatility will likely remain high. We continue to believe Treasury yields should moderate over the course of this year and expect the curve to become less inverted.

For investors looking to increase yield without moving into full risk-on mode, we think it makes sense to explore areas of the broad bond market, including municipals. We continue to favor an up-in-quality bias within fixed income sectors, where the risk/reward balance is most appealing. Some areas of the preferred and commercial mortgage-backed security (CMBS) markets, which have weakened so far this year, are becoming attractive. Portions of the high yield municipal space are attractive as well.

In equities, we suggest balancing two attractive areas: 1) U.S. large caps should perform well given moderating inflation, stabilizing yields and tailwinds from the tech sector and 2) emerging markets are enjoying tailwinds from attractive valuations, the weaker dollar and looser monetary policy in China. We also point to non-U.S. alternatives, including real estate and real assets.

In private capital markets, we prefer allocating to income-producing asset classes with the potential for downside protection. In particular, we see compelling opportunities in select areas of private credit and private real estate.

For more information, please visit us at nuveen.com.

Endnotes

Sources

Federal Reserve Statement, July 2023.

Bloomberg, L.P.

This material is not intended to be a recommendation or investment advice, does not constitute a solicitation to buy, sell or hold a security or an investment strategy, and is not provided in a fiduciary capacity. The information provided does not take into account the specific objectives or circumstances of any particular investor, or suggest any specific course of action. Investment decisions should be made based on an investor's objectives and circumstances and in consultation with his or her financial professionals.

The views and opinions expressed are for informational and educational purposes only as of the date of production/writing and may change without notice at any time based on numerous factors, such as market or other conditions, legal and regulatory developments, additional risks and uncertainties and may not come to pass. This material may contain "forward-looking" information that is not purely historical in nature. Such information may include, among other things, projections, forecasts, estimates of market returns, and proposed or expected portfolio composition. Any changes to assumptions that may have been made in preparing this material could have a material impact on the information presented herein by way of example. **Performance data shown represents past performance and does not predict or guarantee future results.** Investing involves risk; principal loss is possible.

All information has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such. For term definitions and index descriptions, please access the glossary on nuveen.com. **Please note, it is not possible to invest directly in an index.**

Important information on risk

This report is for informational and educational purposes only and is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice or analysis. The analysis contained herein is based on the data available at the time of publication and the opinions of Nuveen Research.

The report should not be regarded by the recipients as a substitute for the exercise of their own judgment. All investments carry a certain degree of risk, including possible loss of principal, and there is no assurance that an investment will provide positive performance over any period of time. It is important to review investment objectives, risk tolerance, tax liability and liquidity needs before choosing an investment style or manager.

Nuveen, LLC provides investment solutions through its investment specialists.

This information does not constitute investment research as defined under MiFID.

NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE