



At Passage Wealth, it is important to us that you are well informed about what is happening in the markets. Here are a few of the key topics of conversation that we feel deserve the most attention this month. If you have any questions or would like to continue the conversation, let us know, and we appreciate the opportunity.

Inflation has yet to show signs of slowing as February's Consumer Price Index notched another multi-decade high with prices increasing 7.9% over the last year and 0.8% since January<sup>1</sup>. Largely due to ongoing supply chain issues, energy was a massive contributor to the increases - and that was before the oil and gas prices shot up in early March! Housing also continues to be a large contributor.

In response to the inflation data, the Federal Reserve held its policy meeting last week and as expected, lifted short-term rates by 0.25%. The next moves by the Fed will be murkier with some voting members expecting six more increases over the remainder of 2022.

Changing expectations of what the Fed may do for the rest of the year can be a driving factor for market volatility and has likely been a big contributor to the periods of volatility we have seen over the last several months. Heading into the Fed's meeting, the market was expecting the Fed's policy rate to increase to 1.75% to 2.00% by the end of the year which shifted slightly upwards to 2.00% to 2.25% in the few days after the meeting<sup>2</sup>. If this is indeed the case, it leaves room for a quarter percentage point increase at each of the remaining meetings this year.

The labor market continues to be a bright spot in the economic landscape with an upside surprise in February's jobs report, showing 678,000 new jobs were added to the economy along with upward revisions in December and January's reports<sup>3</sup>. The new jobs helped the unemployment rate drop from 4.0% to 3.8%. This is an example of a data point that gives us confidence the economy can handle increased interest rates over 2022.

Finally, the invasion of Ukraine has caught the attention and condemnation of the world. The speed of both the invasion, as well as the coordination of the global response, has been quicker than most experts foresaw. The escalation of the crisis as well as escalating sanctions has caused volatile energy prices with oil briefly rising above \$120 per barrel early in the month<sup>4</sup> before coming back down to below \$100 in mid-March. It's worth noting that geopolitical conflicts alone have not historically created sustained market volatility.

The bottom line: Inflation and the Fed's interest rate policy continue to capture the focus of the market, and rightly so. While the Fed has kicked off its journey to lift interest rates off the floor, it will take time

to flow through the economy and the next few inflation reports could alter the Fed's pace and, perhaps more importantly, the market's expectations for the rest of the year.

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#### Sources:

1. US Bureau of Labor Statistics, <https://www.bls.gov/news.release/cpi.nr0.htm>
2. CME FedWatch Tool, latest as of March 21, 2022
3. US Bureau of Labor Statistics, <https://www.bls.gov/news.release/empsit.nr0.htm>
4. Bloomberg, WTI Crude Oil

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The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. Indexes are available for the U.S. and various geographic areas. Average price data for select utility, automotive fuel, and food items are also available.

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