



**Kristina Hooper**  
Chief Global Market Strategist



## Federal Reserve

I expect the Federal Reserve to sit on its hands at this week's meeting while attempting to tamp down easing financial conditions with tough talk.

## European Central Bank

Markets are forecasting that last week's surprise rate hike will be the last hike of this cycle.

## Bank of England

I expect to see a rate hike this week, but there are some compelling reasons to believe that this will be the last rate hike of the cycle.

---

### Weekly Market Compass | September 18, 2023

---

When moving my son into his off-campus apartment for his senior year of college, I got a chuckle out of seeing a "Neighborhood Watch" sign warning would-be criminals that residents are all laser-focused on stopping any potential criminal activity, presumably so they should find another neighborhood to pillage. In reality, the neighborhood is full of college students who most likely leave their doors unlocked, are out partying every weekend, and would probably sleep through any suspicious activity. While these residents, including my son, might not be diligent enough to be on neighborhood watch, I am completely wrapped up in my own central bank watch since central banks, especially the Federal Reserve (Fed), continue to have such an outsized impact on economies and markets.

To be on central bank watch these days is to be on inflation watch. A recurring theme in my commentaries is that there is a strong disinflationary trend underway in the US, but it's an imperfect process and not every data point will be perfectly aligned. Sure enough, last week brought us a few bumps in the road toward disinflation. This week I talk about some of those challenges, preview upcoming global central bank meetings, and discuss some looming dates on the calendar that could have an impact on markets and the economy.

---

### Strikes could push up US inflation, if prolonged

The most-watched data release last week was the August US Consumer Price Index (CPI) print. While headline CPI was significantly higher than expected due to higher gas prices, core inflation was only a touch higher than expected, and markets didn't seem to be very rattled by it. Having said that, prolonged higher oil prices would be problematic because of seepage into core inflation over time.

Also in the US, the United Auto Workers (UAW) went on strike last week. Strikes have been in the news quite a bit over the past several months. The Writers Guild of America has been on strike since May and the Screen Actors Guild - American Federation of Television and Radio Artists went on strike in July. But the UAW strike could have a far more significant impact on the economy.

There are approximately 145,000 UAW workers who are employed at the three major US auto manufacturers.<sup>1</sup> The good news is that, for now at least, the strikes are rolling and targeting just a few plants at a time. Depending on the length of the strike and the number of plants affected, this could have a meaningful impact on supply chains, which could push up car prices.

However, the timing of this strike is far better than if it were to have occurred last year, when there was very strong car pricing pressure. (As an aside, our family owns a US automobile and, because I've been interested in following car price inflation, every month or so I plug its VIN number into the Carvana website to see the "going price" for such a used automobile. After holding steady at more than we originally paid for the vehicle for more than six months, we found out

---

two weeks ago that the car had dropped about 10% in value.) The easing of car prices should be a countervailing force to any strike-induced price increases. The strike should also negatively impact industrial production, but ultimately, I expect it to have no more than a slight impact on US gross domestic product, although again it depends on the length and scope of the strike.

---

### **A surprise rate hike in Europe may mark the peak**

The European Central Bank (ECB) surprised markets by hiking rates last week. However, it was viewed as a “dovish hike.” The market is now forecasting the ECB’s key policy rate is at its peak for this cycle, although ECB President Christine Lagarde said at the press conference that she could not rule out further hikes at this time.

The ECB’s hike was met with some concern about what it will do to growth given weakening economic data. (The quote of the week goes to Italy’s Deputy Prime Minister Matteo Salvini, who said, “Lagarde is living on Mars.”<sup>2</sup> Runner up goes to France’s Finance Minister Bruno LeMaire, who blurted, “Enough is enough!”<sup>3</sup>) And there is reason to be concerned about the lagged effects of monetary policy on the eurozone economy, which are just starting to show. For example, eurozone industrial production for July came in well below expectations.<sup>4</sup> We will want to follow the data closely for signs of greater weakness as the lagged effects of ECB monetary policy are likely to become more apparent.

---

### **China delivers some long-awaited positive surprises**

China got some surprisingly positive economic data last week. Retail sales and industrial production improved in August, and unemployment ticked down.<sup>5</sup> This suggests the slow drip of stimulative policies may be starting to have a positive impact, especially in building confidence.

---

### **What will the Federal Reserve do this week?**

It is widely expected that the Federal Reserve (Fed) will keep rates steady this week.

I have been closely monitoring two data points — CPI and University of Michigan inflation expectations — that have historically influenced the Fed’s rate decisions. Recall that back in June 2022, those two data points changed the Fed’s decision from a 50 basis point rate hike, which had been well communicated in the weeks leading up to the meeting, to a 75 basis point rate hike. But last week we learned that August CPI was slightly higher than expected, but nothing concerning, and the University of Michigan consumer inflation expectations actually decreased.

The University of Michigan survey showed that one-year-ahead consumer inflation expectations have improved materially, despite higher gas prices, and five-year-ahead expectations also ticked down.<sup>6</sup> This improvement should help the Fed feel confident that inflation expectations are well anchored. And that should help the Fed feel more comfortable about not hiking at its meeting this week — or at any meeting — and ending its tightening cycle. In addition, the survey shows a marked weakening of consumer sentiment. This should also help encourage the Fed to end its rate hike cycle.

---

I continue to believe the Fed should stop hiking because overtightening is the bigger risk at this point. Last week, I asked my LinkedIn followers whether overtightening or undertighting is the bigger risk for the Fed, and they overwhelmingly agreed that overtightening is the bigger risk.

So, I expect the Fed to sit on its hands at this week's meeting, although it is likely to be a hawkish pause as the Fed attempts to tamp down easing financial conditions with tough talk.

---

### **The Bank of England is expected to hike rates**

The Bank of England is also meeting this week, and it's expected to hike rates — with good reason. Regular wage growth in the UK hit a new high in July of 7.8%, taking real pay growth to -0.1%.<sup>7</sup> Real wage growth has been negative since October 2021.<sup>7</sup> In addition, August inflation data is released on Wednesday — alcohol and fuel are expected to push headline data higher than July. We expect core inflation forecast to be marginally lower than July.

There are also some compelling reasons to believe that this will be the Bank of England's last rate hike of the cycle. There was a further uptick in unemployment, and there was a significant drop in GDP in July, which was the larger surprise, even accounting for the weather and other issues. This was as data showed the value of mortgages in arrears rose sharply in the second quarter — up 13% — and is now at the highest level for almost seven years.<sup>8</sup>

---

### **The Bank of Japan keeps markets guessing**

The Bank of Japan (BOJ) will be the wild card, as Governor Kazuo Ueda is only a few months into his new position and is keeping markets guessing. Just a short while ago, he suggested the BOJ could soon end negative rates. So, we will be watching the BOJ closely.

---

### **The countdown clock**

As many of you know, my daughter plays basketball, and the shot clock is an important component of the game. It tells the team how long they have to take a shot before their time is up. If a player doesn't keep an eye on the shot clock, they are often sorry. Here are a few countdown clocks that I'm watching:

- **Countdown to US government shutdown.** Sept. 30. A government shutdown could negatively impact risk assets in the short term and increase volatility.
- **Countdown to the end of US student loan forgiveness.** Oct. 1. This could impact consumer spending, especially since we are already hearing from companies that consumer spending has become more selective as excess household savings is being whittled down.
- **Countdown to winter in Europe.** Energy preparedness is critical. Natural gas stockpiles are good, but their adequacy will depend on the harshness of the winter.

Looking ahead, I wouldn't be surprised to see more volatility in the near term. Volatility is typically the outcome of policy uncertainty, and we will have that in spades with the government shutdown looming and a lack of clarity on whether the Fed has actually ended its rate hike cycle — and also questions about when the Fed will start cutting rates.

---

In addition, there is significant uncertainty about other central banks and what their next steps will be. However, I expect a relatively brief albeit bumpy landing for the US economy followed by similar scenarios in Europe and the UK, which would mean markets could soon start to discount an economic recovery, favoring risk assets. Until then, I will remain on central bank watch.

Join me on my central bank watch on Sept. 20, as I share my expectations and live reactions to the Federal Reserve meeting on X, formerly known as Twitter (@KristinaHooper).

*With contributions from Emma McHugh*

---

#### Notes

<sup>1</sup>Source: CNN, Sept. 16, 2023

<sup>2</sup>Source: Bloomberg, "ECB Draws Fury From Italy and Portugal in Rate-Hike Backlash," Sept. 15, 2023

<sup>3</sup>Source: Bloomberg, "ECB Shouldn't Raise Rates Further, French Finance Minister Le Maire Says," Sept. 15, 2023

<sup>4</sup>Source: Eurostat, Sept. 13, 2023

<sup>5</sup>Source: China National Bureau of Statistics, Sept. 15, 2023

<sup>6</sup>Source: University of Michigan Survey of Consumers, Sept. 15, 2023

<sup>7</sup>Source: UK Office for National Statistics, Sept. 12, 2023

<sup>8</sup>Source: Bank of England, Sept. 12, 2023

---

#### Important information

Past performance is not a guarantee of future results.

This does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions.

All investing involves risk, including the risk of loss.

In general, stock values fluctuate, sometimes widely, in response to activities specific to the company as well as general market, economic and political conditions.

The risks of investing in securities of foreign issuers, including emerging market issuers, can include fluctuations in foreign currencies, political and economic instability, and foreign taxation issues.

Investments in companies located or operating in Greater China are subject to the following risks: nationalization, expropriation, or confiscation of property, difficulty in obtaining and/or enforcing judgments, alteration or discontinuation of economic reforms, military conflicts, and China's dependency on the economies of other Asian countries, many of which are developing countries.

The Consumer Price Index (CPI) measures change in consumer prices as determined by the US Bureau of Labor Statistics.

Core inflation is the change in the costs of goods and services, but it does not include those from the food and energy sectors. This measure of inflation excludes these items because their prices are much more volatile.

Disinflation, a slowing in the rate of price inflation, describes instances when the inflation rate has reduced marginally over the short term.

Dovish refers to an economic outlook which generally supports low interest rates as a means of encouraging growth within the economy.

The European Central Bank (ECB) is responsible for the monetary policy of the European Union.

The Eurozone (also known as the euro area or euroland) is an economic and monetary union of 18 European Union member states that have adopted the euro (€) as their common currency.

GDP (Gross domestic product) is a broad indicator of a region's economic activity, measuring the monetary value of all the finished goods and services produced in that region over a specified period of time.

Hawkish pause is when a central bank keeps interest rates unchanged, while sticking to its hawkish tone due to strong and/or elevated market conditions (inflation, job market).

Inflation is the rate at which the general price level for goods and services is increasing.

The Michigan Consumer Sentiment Index (MCSI) is a monthly survey of consumer confidence levels in the United States conducted by the University of Michigan.

Tightening monetary policy includes actions by a central bank to curb inflation.

The opinions referenced above are those of the author as of September 18, 2023. These comments should not be construed as recommendations, but as an illustration of broader themes. Forward-looking statements are not guarantees of future results. They involve risks, uncertainties and assumptions; there can be no assurance that actual results will not differ materially from expectations.