MARKET COMMENTARY

Last week, we sat down with Managing Director of Fixed Income Nora Pickens, CAIA, and Head of Global Rates at Lord Abbett, Leah Traub, Ph.D., to discuss the drivers behind elevated interest rate volatility this year and how it's impacting bond portfolios. We also spent a fair amount of time covering key takeaways from the last Federal Open Market Committee (FOMC) meeting during the discussion.

As Leah mentioned during the panel, we are in a situation that we haven't seen in decades because inflation, not employment, is the Fed's top concern. We have a very tight labor market with a 3.6% unemployment rate and 11 million job openings, but the 5.2% year-over-year increase in the core PCE Price Index is nowhere near the Fed's long-term average target of 2%.

At this point, the Fed has to tighten financial conditions relatively quickly because they are far behind the curve. During the most recent FOMC meeting, the Federal Reserve implemented a 50-basis point hike, the first of that magnitude since 2000. There are another 200 basis points worth of rate hikes priced into the market this year, which results in a terminal rate of 3%.

During the panel, Leah highlighted that the Fed will be very data-dependent before making rate hike decisions. Fed Chair Powell has also emphasized that they will hike more or less, as economic data indicates is appropriate. In making that decision, the Fed will be focused on the trajectory of inflation, changes in inflation expectations, and labor market health.

In case you missed the Livestream or would like to revisit the content, we welcome you to watch the replay, Navigating Interest Rate Volatility in Bond Portfolios, **here.**

QUICK LINKS

- Earnings Yields Better-Than-Expected Results
- May Update: Domestic Gross Panic?
- Market Update: Sentiment Turns Negative
- How Likely Is an Inflation Disaster?

This week's contributor: *Rachel Hassett*