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Data

The Federal Reserve's recent policy decisions continue to reflect the delicate balance between its dual mandate of promoting maximum employment and maintaining price stability. While investors often focus on the timing of interest rate changes, the underlying economic data ultimately guide Federal Open Market Committee (FOMC) decisions. One useful way to evaluate the current environment is through the Misery Index, which combines the unemployment rate and inflation into a single measure of economic conditions. Although developed in the 1960s, the index remains a valuable tool for assessing the Fed's policy outlook and the potential implications for financial markets.

PERSPECTIVE

The unemployment rate measures the percentage of individuals actively seeking work but unable to find employment. Historically averaging about 5.7%, unemployment has remained relatively low over the past decade outside of the temporary pandemic-related surge. Chart I shows recent readings near 4.2% which continues to indicate a healthy labor market, with hiring moderating but remaining consistent with an expanding economy. This resilience has reduced the urgency for the Fed to lower interest rates to support economic growth.

Inflation remains the primary focus of monetary policy. The Consumer Price Index (CPI) in Chart II, along with the Personal Consumption Expenditures (PCE) Price Index, has declined from its post-pandemic highs but remains above the Federal Reserve's 2% inflation objective. While progress has been encouraging, higher energy prices and their second-order effects have kept inflation more persistent, particularly across labor-intensive service sectors. Consequently, policymakers have emphasized they need greater confidence inflation is moving sustainably toward target before implementing additional rate cuts.

Combined in Chart III, unemployment and inflation produce a Misery Index that has edged higher but remains relatively low by historical standards, reflecting an economy with resilient employment and persistent inflation rather than widespread economic distress. Unlike periods when the Federal Reserve aggressively eased policy to combat recession, today's environment calls for patience as policymakers seek to contain inflation while preserving economic expansion.

CHART I

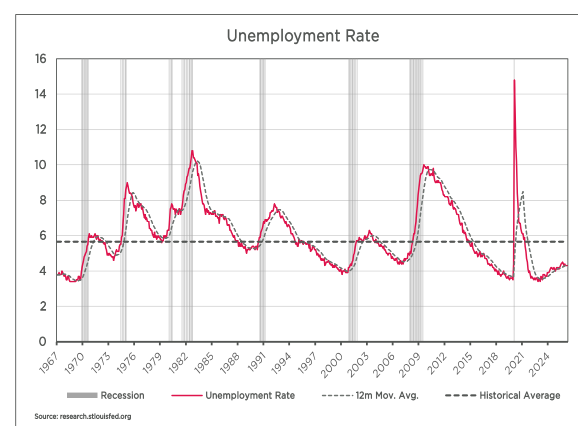


CHART II

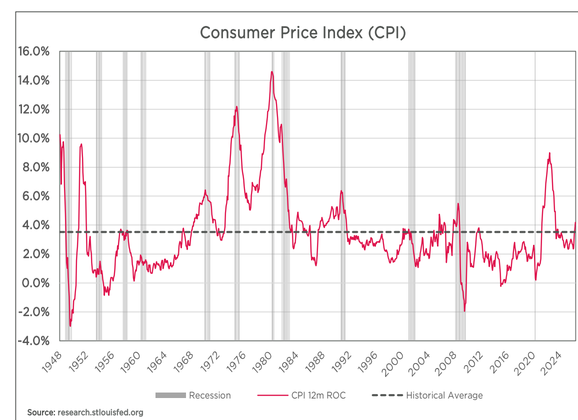
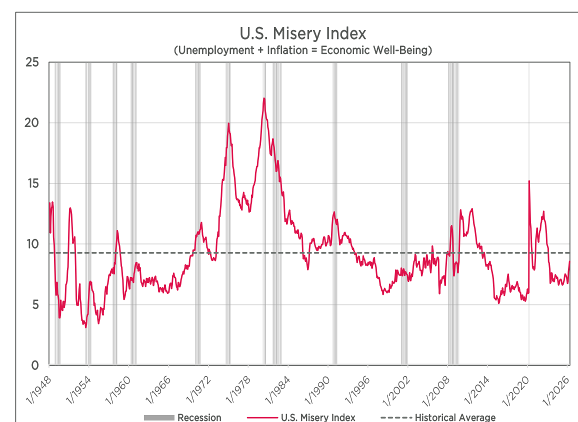


CHART III



INVESTMENT IMPLICATIONS

Looking ahead, the FOMC is expected to remain highly data dependent. Continued moderation in inflation and gradual cooling in labor markets could support measured rate cuts over time. However, if inflation remains sticky or economic growth strengthens unexpectedly, policymakers may keep interest rates elevated for longer than markets anticipate. For investors, maintaining a diversified portfolio remains prudent, as a balanced approach can help navigate periods of market volatility while monetary policy gradually moves toward a more neutral stance.

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