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## The Fed on the balance beam

St. Louis Federal Reserve President James Bullard has been one of the Fed's most hawkish members over the last 12 months or so. He will probably be joined by more voters on the Federal Open Market Committee after July's hot jobs report. The U.S. added 528,000 jobs, and the unemployment rate fell to 3.5%.

Early last week, Bullard expressed confidence the Fed can orchestrate a "soft landing," in which it subdues inflation without pushing the economy into a recession. This is an extraordinary challenge. On the one hand, the continued strength of the labor market suggests the economy is strong enough to handle inflation in the near term and might indeed avoid a downturn—one that appears already to be showing up in other data. On the other hand, low unemployment means higher wages, which historically boost inflation, meaning the Fed might push harder. To this point, Bullard also said the federal funds rate will have to stay elevated for a longer period if prices don't respond. One thing seems certain: the Fed is walking a tightrope, with many people's livelihood in the balance.