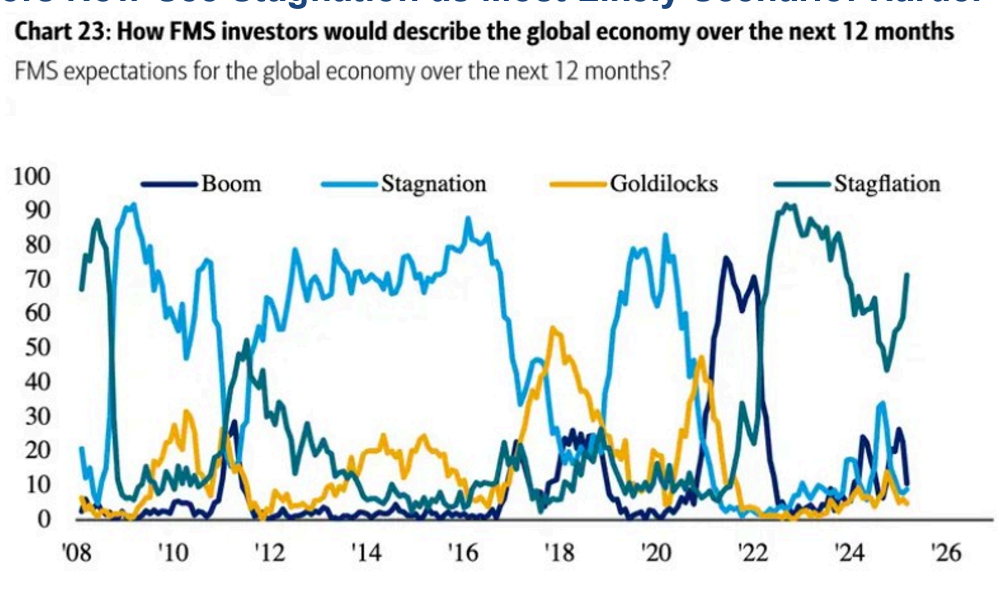
Harry's Take

March 25, 2025

Fears of Stagflation Will Make It Hard for the Fed to Keep Easing Aggressively

After tightening 525bps to slow the economy into early 2022, the Fed finally started easing off the tight stance with 100 bps in 3 cuts between 9/18 and 12/18 2024. But that still leaves the policy net tight. Everyone has been expecting the Fed to keep easing back to neutral around 300bps or so. But that may not happen as fast as hoped and that could be a reason for stocks to continue to fall after the 10%+ declines in the major US stock indices since late January.

Investors Now See Stagflation as Most Likely Scenario: Harder to Ease



Source: BofA Global Fund Manager Survey.

Source: https://www.businessinsider.com/stagflation -worse-than-recession-outlook-inflation-economy-growth-fed-rates-2025-3

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This chart shows the reason for that. Investors' biggest fear now is stagflation which is the dark green line which reached the highest level since late 2007/early 2008, and after backing off a bit since late 2022 it now looks to be heading back towards those highs fast. Stagflation was also the larger concern back in 2016 and around COVID in early 2020.

Investors were the most bullish (dark blue line) in late 2021 after the mega $11 trillion combined fiscal and monetary stimulus between early 2020 and early 2022. That has backed off dramatically since and is heading down again after only a minor bounce.

The stickiness of inflation between 2.5% and 3.0% and this rising stagflation concern will make it hard for the Fed to respond as aggressively as will likely be needed to stave off an economic slowdown and a further stock crash that will likely build momentum faster than most assume given how massively the economy and stocks have been propped up by $27T in stimulus since 2008.

More reasons to remain cautious and out of stocks and risk assets until the trends become clearer… and likely more strongly to the downside.

Harry

Got a question or comment? You can reach us at info@hsdent.com.