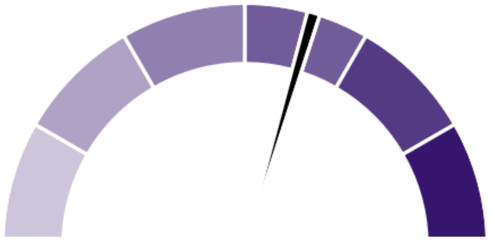
Fed Monitor

Trend

	Indicator	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	10/14
Employment	Monthly Jobs Growth (Thousands)	677	647	588	504	714	398	368	386	293	537	315	263	
	Unemployment Rate	4.6%	4.2%	3.9%	4.0%	3.8%	3.6%	3.6%	3.6%	3.6%	3.5%	3.7%	3.5%	
	Initial Jobless Claims (4-Wk Avg., Thousands)	300	257	222	229	195	178	189	207	232	248	241	206	
	Labor Force Participation Rate (25-54 Yrs.)	81.9%	82.1%	82.0%	82.0%	82.3%	82.7%	82.5%	82.5%	82.1%	82.0%	82.7%	82.7%	
Inflation	Consumer Price Index (CPI) - YoY Change	6.2%	6.8%	7.0%	7.5%	7.9%	8.5%	8.3%	8.6%	9.1%	8.5%	8.3%	8.2%	
	Core CPI (ex. Food and Energy) - YoY Change	4.6%	4.9%	5.5%	6.0%	6.4%	6.5%	6.2%	6.0%	5.9%	5.9%	6.3%	6.6%	
	Producer Price Index (PPI) - YoY Change	8.9%	9.9%	10.2%	10.2%	10.5%	11.7%	11.2%	11.0%	11.2%	9.8%	8.6%	8.5%	
	Average Hourly Earnings - YoY Change	5.4%	5.3%	4.9%	5.4%	5.2%	5.6%	5.5%	5.3%	5.2%	5.2%	5.2%	5.0%	
Market	Treasury Yield Curve (10 Yr. Minus 2 Yr.)	1.07%	0.91%	0.79%	0.61%	0.39%	0.04%	0.19%	0.32%	0.06%	-0.22%	-0.30%	-0.39%	-0.49%
	Volatility Index (VIX)	17.9	18.5	21.4	23.2	25.8	27.0	24.4	29.3	28.2	25.0	22.2	27.3	32.0
	Copper ($ per metric ton)	9,955	9,605	9,692	9,620	9,974	10,337	9,821	9,501	8,245	7,801	7,721	7,647	7,688
	Baltic Dry Index	3,519	3,018	2,217	1,418	2,040	2,358	2,404	2,566	2,240	1,895	965	1,760	1,838

Data is Weakening | Data is Strengthening

Fed-O-Meter



Higher Chance of More Conservative Fed Policy | **Higher Chance of More Aggressive Fed Policy**

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Sources and Notes: Cetera Investment Management, Federal Reserve Bank of St. Louis, FactSet, Morningstar, U.S. Bureau of Labor Statistics (Monthly Jobs Growth, Unemployment Rate, Labor Force Participation Rate, Consumer Price Index, Core CPI, Producer Price Index, Average Hourly Earnings), U.S. Employment and Training Administration (Initial Jobless Claims), Treasury Department (Treasury Yield Curve), Chicago Board Options Exchange (Volatility Index), LME (Copper), The Baltic Exchange (Baltic Dry Index). The color red indicates the data is strengthening and blue indicates the data is weakening. The Fed-O-Meter is the opinion of Cetera Investment Management based on interpreting the data in relation to the Federal Reserve's public statements and official releases. It is meant for discussion purposes only.

Fed Monitor Summary

The economic expansion has advanced from the initial recovery, and the focus is now on metrics the Federal Reserve is looking at to gauge the health of the economy. Since the Fed's dual mandate is to keep prices stable and maximize employment, we will focus on labor and inflation metrics, keeping in mind the broader economic impact as well. We created a Fed Monitor to track some of the data points that will impact the Fed's decisions to tighten financial conditions. Additionally, we try to quantify the data and information outside of the dashboard to determine if the Fed is being more dovish than the data, and likely to be more aggressive in the future, or if they are being hawkish relative to the data, and likely to be more conservative in the future.

The Federal Reserve (Fed) is hiking interest rates at the fastest pace since the early 1980s. The last three Fed meetings ended with a 0.75% rate hike, and the latest odds indicate another 0.75% rate hike is likely in November (97% chance as of 10/17), per the CME Group's FedWatch tool. Several Federal Reserve officials have spoken in recent weeks. For the most part, they have reiterated their commitment to maintaining high interest rates to slow inflation, even if the economy falters. The Fed's rhetoric is very hawkish, with frequent references to avoiding the same mistakes committed during the 1970s high inflation era when monetary policy was loosened prematurely. The Minutes from the September FOMC meeting indicated that several Fed officials are alarmed by the persistence of high inflation.

The Fed is taking a data dependent approach. The unemployment rate is currently at a 52-year low of 3.5% and primary age labor force participation is one percentage point higher than a year ago. More people are re-entering the labor force and the gap between job openings and job seekers is starting to decline, though it's still at a high level. Initial jobless claims remain healthy and wage growth is slowing on a year-over-year basis. Labor market strength provides the Fed with some comfort that higher rates haven't caused a labor recession, but they would like to see wage growth slow further and the labor supply and demand imbalance to revert to pre-pandemic trends. Inflation is the top concern of the Fed and September's inflation data was disappointing. The producer price index eased on a year-over-year (Y/Y) basis but rose more than expected in September. Core consumer price growth remains persistently high. Core CPI (excluding food and energy) rose 0.6% in September and jumped to 6.6% Y/Y. The good news is we are seeing leading indicators hinting at a future slowdown in inflation. Asking rents, shipping container rates, and prices paid readings from business surveys are all easing.

We are maintaining the Fed-O-Meter dial slightly to the right of the middle. The pace of inflation is too high right now, though underlying data does point to slowing inflationary pressures that will eventually feed into CPI and PCE inflation data. The Fed is sending a strong message that more hawkishness should be expected. That could change if inflation and the labor market slow faster than expected. The Fed's aggressive approach this year will have an impact on inflation pressure, but there is a lag.

Disclosures

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Glossary
The **Chicago Board Options Exchange (CBOE) Volatility Index**, commonly known by its ticker symbol VIX, is a measure of the stock market's expectation of volatility implied by S&P 500 index options. The index is calculated and published by the CBOE based on market prices of call and put options on the S&P 500 for the next monthly expiration, and the second month expiration of the options. The VIX is a measure of market perceived volatility in either direction, and represents the expected range of movement in the S&P 500 index over the next year.