

## WEEK IN REVIEW

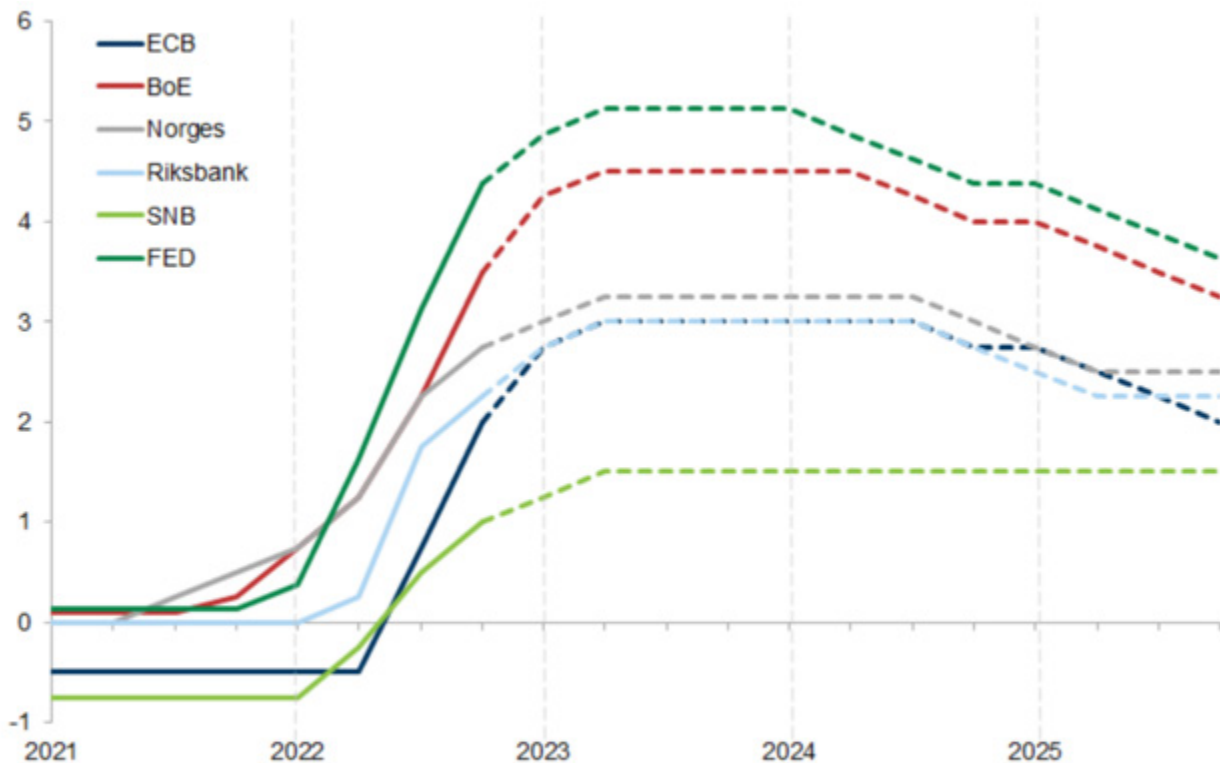
FRIDAY, DECEMBER 9, 2022

### STORY OF THE YEAR? CENTRAL BANK RATES ALIGN...EXPECTED TO FLATTEN GOING FORWARD

As we come into the final weeks of 2022, the financial market story of the year is the coordinated abrupt increase of central bank policy rates across the globe.

#### CENTRAL BANK RATES EXPECTED TO FLATTEN IN 2023

Goldman Sachs Policy Rate Forecast (%)



Source: Goldman Sachs Global Investment Research

### THE FINAL CHAPTER OF 2022

The final chapter of the story for rates is not yet over as we look forward to next week's release of November's Consumer Price Index (CPI) data on Tuesday and the final Federal Reserve meeting for the year on Wednesday. The anticipation is that CPI data will support the view that peak inflation is behind the U.S. economy and that the Federal Reserve will raise rates by 50 basis points, a deceleration from the previous 4 increases of 75 basis points. A deviation from the expected path for CPI or rates next week would likely be greeted by significant market volatility into year end.

## LOOKING AT 2023

As we move into 2023, the expected flattening of central bank rates will likely be a welcome relief for the financial markets relative to the shock experienced in 2022. However, as corporate earnings are expected to slow or even decline in 2023 relative to 2022, a clear positive catalyst for financial markets may be lacking without a pivot towards lower rates.

Based on Goldman Sachs research, a pivot towards lower rates is not expected until 2024. The key drivers of this assumption are a Federal Reserve intent on not easing policy before inflation has been broken and the potential for inflation to be sticky requiring additional time to revert to the Federal Reserve's target of 2%. Of course, a more severe slowdown than anticipated could change both the outlook for inflation and the Federal Reserve's resolve.

While no single data point will determine the direction for financial markets in 2023, next week's CPI data and Fed meeting will certainly influence the rest of 2022 and set the tenor for 2023.

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