INVESTMENT FUNDAMENTALS

Monetary policy hawks and doves.

In nature, hawks are carnivorous birds of prey with sharp talons and beaks. Conversely, doves are passive and relatively smaller herbivorous birds. Just as the appetites and temperaments of these two species of birds are vastly different, so, too, are the views and priorities of "hawkish" and "dovish" central bankers when it comes to setting interest rates.

Countless newspaper editorials over the years have speculated about whether future interest rates in the U.S. will move higher or lower. Market pundits frequently parse comments made by central bankers in an effort to determine whether the central bank is generally "hawkish" or "dovish" regarding monetary policy.

A hawkish monetary policy reflects a negative view of inflation and its economic impact. Hawks tend to favor raising interest rates to control inflation. This is viewed as an aggressive stance because higher interest rates make it more expensive for businesses and consumers to borrow money, resulting in reduced spending and lower economic growth. Channeling the international symbol of peace, a "dove" has a positive view of inflation and its economic impact; therefore, dovish central bankers tend to favor lower interest rates to spur borrowing and spending, thereby supporting economic growth.

The table below illustrates the characteristics of both categories of monetary policy views.

	Hawkish	Dovish
Monetary policy preference	Contractionary (restrict the flow of money)	Expansionary (easy to borrow money)
View of inflation	Negative	Positive
Interest-rate preference	Higher	Lower

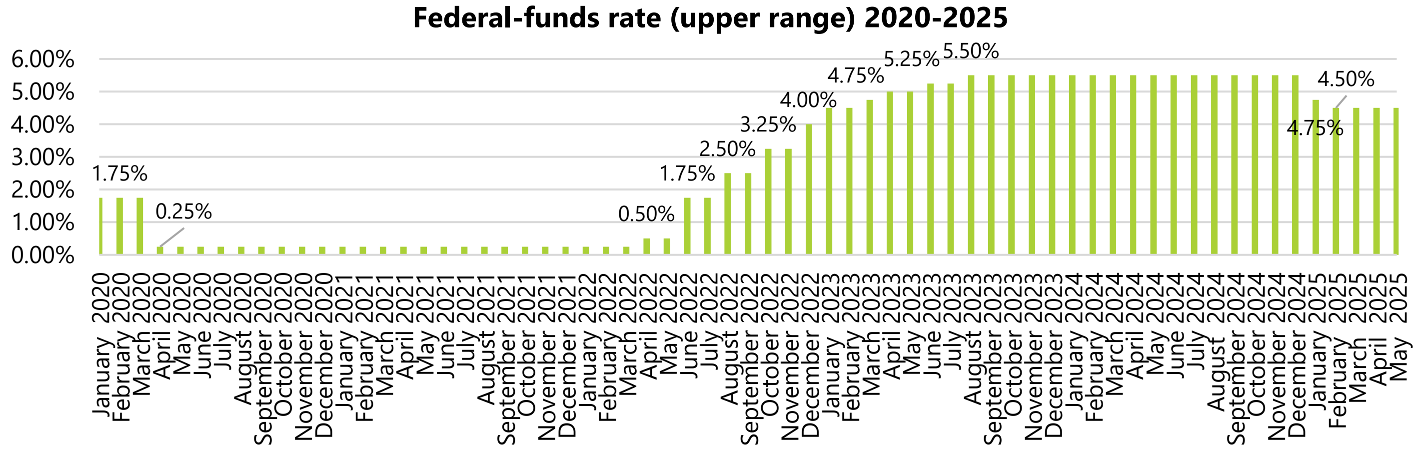
An eventful five years for the birds of monetary policy

The first half of the 2020s has seen more than its share of economic struggles and volatility in the U.S. financial markets. The decade began with the onset and spread of COVID-19, the worst global pandemic in more than 100 years. The U.S. economy experienced a brief recession, with gross domestic product (GDP) contracting 5.5% in the first quarter of 2020 and 28.1% in the second quarter.[1] In mid-March of that year, central bankers at the U.S. Federal Reserve (Fed) responded to the crisis by slashing interest rates—cutting the federal-funds rate by 1.5% to a range of 0.0% to 0.25%, where it remained for two years. Rising inflationary pressures led the central bank to begin tightening monetary policy; the Fed subsequently implemented 11 rate hikes totaling 5.25% between March 2022 and July 2023. As inflation cooled in 2024, the Fed began to ease monetary policy—reducing the federal-funds rate by corresponding margins of 0.50% in September, 0.25% in November, and 0.25% in December of that year.[2]

[1] Source: U.S. Department of Commerce. May 2025.

[2] Source: Federal Reserve Bank of St. Louis. May 2025.

The chart highlights the Fed's fluctuating monetary policy, from its dovish stance during the COVID-19 pandemic to its hawkish rate-hiking cycle as inflation climbed steadily in 2022 and 2023.



Source: Federal Reserve Bank of St. Louis. May 2025.

Glossary

Central bank is an institution that manages the monetary policy of a country or monetary union

Federal Reserve is the central banking system of the United States.

Federal-funds rate is the Federal Reserve's overnight rate—which is the interest rate that large financial institutions use to borrow/lend in the overnight market.

Gross domestic product (GDP) is the total monetary or market value of all the goods and services produced in a country during a certain period.

Monetary policy is implemented by many central banks to manage economic fluctuations and achieve price stability, which means that inflation is low and stable. Central banks in many advanced economies set explicit inflation targets.

Important information