Early Market Gains Reverse as Powell's Words Fall Flat

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The official statement released at the conclusion of the two-day FOMC meeting this afternoon *held no real surprises*. By unanimous vote, the committee kept the overnight rate target steady at 0.00% to 0.25%, and *clearly signaled that a March liftoff "will soon be appropriate."* The labor market was characterized as "strong," reiterating that the Fed believes its employment mandate has been achieved. The committee believes downside risks remain, including new variants of the virus; this language was unchanged from December.

The official statement made no mention of a larger 50 bp hike, ending the taper process before March, or initiating balance sheet reduction anytime soon. The initial market reaction was relief. Stocks, which had rallied into the meeting, climbed significantly higher in the initial minutes following the announcement.

The press conference, which begin 30 minutes later, started out on a high note as Powell's prepared remarks outlined risks, including reduced consumer demand as a result of the Omicron spread. He also mentioned that the committee expects inflation to decline throughout the year, and added that the Fed was committed to achieving price stability. *So far, so good. . .*

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The Q&A proved much tougher to navigate. Most of the questions had to do with the pace of rate hikes and the plan for balance sheet reduction. When asked if every meeting will be "live" this year, Powell responded that the committee had not made any decisions about the pace of rate hikes; there's no pre-planned schedule. The path of rate hikes will be determined by incoming data and the evolving outlook, although there is "broad support by committee members on raising the funds rate."

Powell said decisions on the balance sheet have not yet been made, and discussions will continue at upcoming meetings. Balance sheet reduction, which could begin this year, will be "orderly and predictable" and will take some time. The pace is likely to be faster than last time. There was no mention of asset sales, suggesting maturing securities will simply be permitted to run-off over time. Powell mentioned that the process would be adjusted as needed. He added that the Fed would need to be nimble, noting that fiscal support will be lower this year.

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Powell compared current economic conditions (strong labor, higher inflation) to the previous liftoff conditions in 2015. This comparison implied the need for a faster tightening pace and seemed to unnerve the markets. However, the Fed only hiked a quarter point in 2015; *more aggressive tightening for 2022 was a given before the meeting.* Powell said that the December dot plot, which had indicated three hikes, has since drifted higher. This too was hardly a surprise as the bond market decided weeks ago that four hikes were a more likely outcome.

When asked about the recent stock market volatility, Powell was illusive and somewhat dismissive, saying "the committee focuses on a broad swathe of information when making decisions." The idea that the Fed wasn't particularly concerned about the recent stock market decline provided another reason for equities to slide this afternoon. The DOW swung nearly 900 points from high-to-low as the Fed communicated its message.

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Powell ended by saying plenty of risks remain, and the uncertain outlook means the Fed will have to be "adaptable." The markets had demanded clarity from Powell today. There wasn't enough. Too many questions remain; too much uncertainty.

When the smoke cleared on a wild afternoon of trading, bonds yields were significantly higher as investors factored in the possibility of a more aggressive policy stance. The communication blackout period is over, so Fed officials are now free to speak. If the hawkish message conveyed today wasn't as intended, alternate messages will be heard later this week.

Market Indications as of 3:46 P.M. Central Time

DOW	Down -130 to 34,168 (HIGH: 36,800)
NASDAQ	Up 3 to 13,542 (HIGH: 16,057)
S&P 500	Down -7 to 4,350 (HIGH: 4,797)
1-Yr T-bill	current yield 0.71%; opening yield 0.63%
2-Yr T-note	current yield 1.15%; opening yield 1.02%
3-Yr T-note	current yield 1.40%; opening yield 1.27%
5-Yr T-note	current yield 1.69%; opening yield 1.57%
10-Yr T-note	current yield 1.87%; opening yield 1.77%
30-Yr T-bond	current yield 2.17%; opening yield 2.12%