Market Attention Turns to Fed Talk and Mounting Ukraine Threat

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This morning, Chicago Fed President Charles Evans, speaking at the U.S. Monetary Policy Forum in New York made headlines when he said "the current stance of monetary policy is wrong-footed and needs substantial adjustment." This comment sounded like the notoriously dovish Evans had turned decidedly hawkish, but he's only stating the obvious: *the current zero rate policy is inappropriate when inflation's at a four-decade high*. Evans (who isn't a voting member this year) went on to say that the current brand of inflation is unusual and driven primarily by supply shortages. He believes "underlying inflation appears to still be well-anchored at levels consistent with the Fed's average 2% objective." As a result, the bold wrong-footed headline faded before it was fully written.

Fed Governor Chris Waller, also speaking at the policy forum on the topic of "Benefits and Risks of a Hot Economy," focused on recent improvement in job prospects for historically disadvantaged workers. This suggests Waller (who, like all Fed governors, is a regular voting member) might not be quite as anxious to curtail economic growth as some of the other committee members.

The FOMC is still squarely on track to hike the overnight target rate at the March, May and June meetings. By summer, if inflation hasn't settled down, Fed officials can always shift to a more aggressive stance.

The minutes to the January FOMC meeting were released on Wednesday afternoon. There was some market relief when it appeared the committee might be less interested in overly aggressive rate hikes and more on future balance sheet reduction. This asset reduction doesn't have to include sales; much can be accomplished in a short period of time if interest payments and maturing principal were simply not reinvested.

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Bonds have rallied for much of the week, nudging yields lower. Part of this may be related to a slightly softer Fed tone than Bullard conveyed last week, but, the dominating market focus is more likely on the Ukrainian border. On Tuesday, it had appeared that Russia was pulling back some of its troops, but this morning, according to U.S. sources and Bloomberg News, Russia has massed as many as 190,000 military personnel on the border. Russia claims it has no plans to attack, but equity investors are bracing for conflict, fleeing riskier, high multiple stocks for the safety of bonds.

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U.S. Secretary of State Antony Blinken has agreed to meet with Russian Foreign Minister Sergei Lavrov next week …provided Russia doesn't invade Ukraine between now and then. All eyes are now on what U.S. officials have deemed "the most significant military mobilization in Europe since WWII."

This week's economic news has become largely irrelevant.

Market Indications as of 12:17 P.M. Central Time

DOW	Down -314 to 33,998 (HIGH: 36,800)
NASDAQ	Down -246 to 13,470 (HIGH: 16,057)
S&P 500	Down -48 to 4,332 (HIGH: 4,797)
1-Yr T-bill	current yield 0.97%; opening yield 0.96%
2-Yr T-note	current yield 1.45%; opening yield 1.45%
3-Yr T-note	current yield 1.67%; opening yield 1.67%
5-Yr T-note	current yield 1.81%; opening yield 1.83%
10-Yr T-note	current yield 1.92%; opening yield 1.95%
30-Yr T-bond	current yield 2.25%; opening yield 2.29%