# Fed Hawks Scream and Yields Climb as Crude Soars

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In the weeks leading up to last week's FOMC meeting, the spotlight was on the most hawkish of Fed members, St. Louis Fed president James Bullard, who pounded his fists in vain for a larger 50 basis point rate hike. He was the only member of the committee not voting for a quarter point increase. At the post-meeting press conference, the focus was on Fed Chairman Jay Powell. His tone was decidedly hawkish, but he remained vague on the question of moving in larger half point increments. *This quickly changed*.

Less than a week after the FOMC meeting, Powell told an audience at the National Association for Business Economics (NABE) annual conference that although he believes quarter point increases at the six remaining FOMC meetings should achieve desired price stability, "the committee could raise the overnight funds target *by more than 25 basis points* at a meeting (*or meetings*) if necessary."

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WTI Crude Oil Futures


**Source: New York Mercantile Exchange / Bloomberg**

Minneapolis Federal Reserve President Neel Kashkari, normally one of the more dovish Fed officials, said he'd penciled in seven hikes for this year. Kashkari pointed out the risks of overdoing it on rate hikes (especially when lifting off from zero), but *he may be the only FOMC member still trying to strike a balance*.

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Chicago Fed President Charles Evans agreed that seven hikes are now appropriate for 2022, but admitted he was open to a larger 50 bp increase to rein-in inflation expectations.

Cleveland Fed President Loretta Mester is in favor of "front-loading" hikes early in the year. *This idea seems to be gaining traction in recent days*. Mester would like to see the overnight target at 2.50% by year end.

San Francisco Fed President Mary Daly (also in the dovish camp) acknowledged the committee may need to push the funds rate above 2.50% to meet its goal, telling *Bloomberg News* "if we need to do 50 basis points, we'll do it."

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And, James Bullard doubled-down on his call for 3.00% funds by yearend. *Suddenly, Bullard isn't quite as much of a committee outlier.*

The two-year Treasury note began the year yielding 0.73% and is currently at 2.14%, while the three-year note has climbed from +0.95% to 2.34%. According to Bloomberg Analytics, this represents the worst quarterly performance since 1973. It's actually been a steady climb in yields over the last six months, fueled by an ever-evolving series of news, data and Fed chatter. *At any given point, the bond market fully reflects the prevailing rate outlook, but that outlook has been shaped and reshaped repeatedly as the inflation outlook sours.*

The war in Ukraine promises to extend already-strained supply bottlenecks and push inflationary pressure higher. The CPI headline could easily top 8.0% in March for the first time since 1981, but the possibility of *double-digit inflation* in the coming months has suddenly become less far-fetched. Consumers are already feeling significantly more pressure at gas pumps and grocery stores. In the words of Mary Daly "…inflation, inflation, inflation is top of everyone's mind."

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The economy is weakening while prices soar, which puts the Fed in a tough spot. If they hike too aggressively, they risk recession, but ignoring skyrocketing prices at this point jeopardizes their credibility (…and it's essential that central banks be credible).

For now, it's *talk tough and hope for the best*.

## Market Indications as of 1:19 P.M. Central Time

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| DOW | Up 255 to 34,614 (HIGH: 36,800) |
| NASDAQ | Up 163 to 14,086 (HIGH: 16,057) |
| S&P 500 | Up 46 to 4,502 (HIGH: 4,797) |
| 1-Yr T-bill | current yield 1.54%; opening yield 1.47% |
| 2-Yr T-note | current yield 2.12%; opening yield 2.11% |
| 3-Yr T-note | current yield 2.34%; opening yield 2.32% |
| 5-Yr T-note | current yield 2.37%; opening yield 2.33% |
| 10-Yr T-note | current yield 2.34%; opening yield 2.30% |
| 30-Yr T-bond | current yield 2.52%; opening yield 2.49% |