Fed Boosts Overnight Target by 75

Scott McIntyre, CFA
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2009
scott.mcintyre@hilltopsecurities.com

Greg Warner, CTP
HilltopSecurities Asset Management
Senior Portfolio Manager
Director
512.481.2012
greg.warner@hilltopsecurities.com

The financial markets breathed a sigh of relief after Fed officials voted unanimously to raise the fed funds target rate by *just* 75 bps to a new range of 2.25% to 2.50%. In the official statement at the conclusion of the July FOMC meeting, committee members noted softening in both spending and production while job gains were seen as "robust." A sentence pointing to COVID lockdowns in China and the corresponding negative effect on supply chains was removed. The initial stock market reaction was positive in response to a lack of surprise.

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In his prepared statement, Powell reiterated that the labor market is extremely tight and consumer spending has slowed significantly. He said that the committee was highly attentive to inflation and *acutely aware* of the pain Americans were experiencing.

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Although committee members believe another unusually large rate increase may be appropriate at the next meeting, *this will depend on incoming data over the next eight weeks.* In the Q&A, Powell mentioned repeatedly that the Fed was *front-loading* its rate hikes to combat inflation. Fed officials will need to be nimble going forward and highly attentive to inflation risks. He added that the committee would like to see demand fall short of its potential for a time to allow supply to catch up.

Powell pointed out that rate increases have been large and have come quickly, and the full effect hasn't yet been felt. *(Historically, monetary policy operates with a lag. With the Fed now having raised rates by a combined 225 bps since March, overtightening is even more likely than in periods of more gradual increases.)*

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The recession question came up several times in the Q&A. Powell said he doesn't believe the economy is currently in recession, pointing *yet again* to extreme labor market strength. He said a path still exists for a soft landing, although he admitted the path is narrow.

The more Powell spoke the more stocks rose, which amounted to a vote of confidence in his words and committee action. Bonds rallied on the short-to-intermediate end of the curve driving yields lower.

The upper band of the overnight rate target is now 2.50%, matching the Fed's long-term estimate. The FOMC is still generally expected to hike by a combined 100 bps over the remaining three meetings this year, but the futures market continues to indicate rate *cuts* beginning as soon as the second quarter of 2023.

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Tomorrow, the initial reading of second quarter GDP is scheduled for release. This morning's data, which included a reduction in the June trade balance and solid durable goods orders, suggest tomorrow's economic growth number will be slightly positive. The median Q2 GDP forecast as of this afternoon is +0.4%. The release will certainly make headlines, but it's subject to revisions in both August and September.

Market Indications as of 3:05 P.M. Central Time

DOW	Up 436 to 32,198 (HIGH: 36,800)
NASDAQ	Up 470 to 12,032 (HIGH: 16,057)
S&P 500	Up 109 to 4,030 (HIGH: 4,797)
1-Yr T-bill	current yield 2.98%; opening yield 3.02%
2-Yr T-note	current yield 3.00%; opening yield 3.05%
3-Yr T-note	current yield 2.96%; opening yield 3.00%
5-Yr T-note	current yield 2.86%; opening yield 2.89%
10-Yr T-note	current yield 2.81%; opening yield 2.80%
30-Yr T-bond	current yield 3.08%; opening yield 3.02%