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Tough-Talking Powell Shows Fed Resolve

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This morning, Fed Chairman Jay Powell delivered a surprisingly short, pre-prepared keynote address at the annual Jackson Hole Economic Symposium. Nothing he said should have come as a surprise; the only real question had been the degree of hawkishness in his tone. The answer is … *a little more hawkish than expected*. As a result, both stocks and bonds are selling off in early trading.

The main points Powell made were:

- The Fed's overarching focus right now is to bring inflation back down to its 2% goal.
- Restoring price stability will likely require maintaining a restrictive policy stance for some time.
- The historical record cautions strongly against premature loosening of policy.
- Reducing inflation is likely to require a sustained period of below trend growth.
- The size of the September rate hike will depend on the totality of the incoming data.
- The longer the current bout of high inflation continues, the greater the chance that expectations become entrenched ..which is why we must keep at it until the job is done.
- At some point, as the stance of monetary policy tightens further, it will likely become appropriate to slow the pace of increases.

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FOMC members have been frustrated for weeks that the financial markets had prematurely concluded the Fed would soon be pivoting to a neutral stance. This speech only reinforces Fed resolve, allowing the policy to work as intended. The speech doesn't signal a more aggressive approach. As the economy continues to slow, and inflation and inflation expectations make substantial progress toward the Fed's target, committee members will communicate the message.

Jackson Hole dominated the financial headlines, but there was quite a bit of economic data quietly released this morning, most of it cooperating nicely with the Fed's intended strategy to slow demand, inflation and inflation expectations:

- Both personal income and spending slowed quite a bit more than expected in July.
- The personal consumption expenditures (PCE) deflator was *negative* in July for the first time since the pandemic began, while the core PCE deflator was up by just +0.1%.
- On a year-over-year basis, both headline PCE and core PCE moved lower, indicating that peak inflation has likely passed. The core has now declined four of the last five months.
- The University of Michigan consumer sentiment index rebounded sharply in August, from 51.5 to 58.2, while one-year inflation expectations dropped from 5.0% to 4.8%.

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Market Indications as of 10:18 A.M. Central Time

DOW	Down -546 to 32,746 (HIGH: 36,800)
NASDAQ	Down -322 to 12,317 (HIGH: 16,057)
S&P 500	Down -72 to 4,127 (HIGH: 4,797)
1-Yr T-bill	current yield 3.33%; opening yield 3.27%
2-Yr T-note	current yield 3.42%; opening yield 3.37%
3-Yr T-note	current yield 3.41%; opening yield 3.37%
5-Yr T-note	current yield 3.19%; opening yield 3.16%
10-Yr T-note	current yield 3.03%; opening yield 3.03%
30-Yr T-bond	current yield 3.22%; opening yield 3.24%