After a Fourth Straight 75 bp Hike, Powell Signals More to Come

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
Managing Director
512.481.2012
greg.warner@hilltopsecurities.com

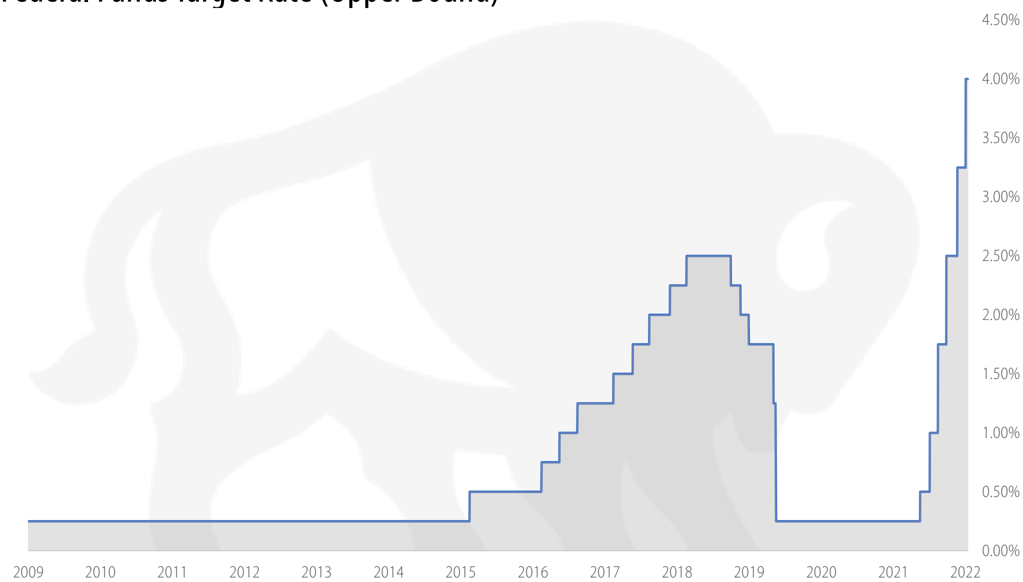
By unanimous decision, the FOMC voted to increase the overnight funds target by 75 bps to a range of 3.75% to 4.0%. It was the fourth consecutive 75 bp move, but just the fifth in the last 30 years.

The official statement, released at the conclusion of the meeting, continued to show Fed officials are still "highly attentive to inflation risks," and as a result, ongoing increases will be required until rates are *sufficiently restrictive* to return inflation to 2% over time.

However, there were a couple of notable additions to the statement that the markets immediately focused on: "The Committee will take into account the *cumulative tightening* of monetary policy (and) the *lags* with which monetary policy affects economic activity and inflation…." This indicates that Fed officials understand that the tightening they've done so far in 2022 will take a while to work.

At the post-meeting press conference, Fed Chairman Powell started out by emphasizing (repeatedly) how important it is to achieve price stability, saying inflation remains "well above" target and restoring price stability will require a sustained period of restrictive policy.

Federal Funds Target Rate (Upper Bound)



Source: Federal Reserve

Committee members are aware they may be nearing the point of overtightening, which paves the way for a lessor 50 bp increase at the December meeting. Having said that, nothing in the statement suggests the Fed will conclude its tightening in December or even next February. Incoming inflation data will continue to dictate policy.

The stock rally was squashed when Powell mentioned that data received since the last meeting (particularly the September CPI report) suggests the Fed may have to increase the terminal rate beyond the level previous forecasts had indicated.

Stocks rallied immediately after the statement release.

At the post-meeting press conference, Fed Chairman Powell started out by emphasizing (repeatedly) how important it is to achieve price stability, saying inflation remains "well above" target and *restoring price stability will require a sustained period of restrictive policy*. He characterized labor markets as "extremely tight," while job gains have been "robust."

Powell repeated the committee will take into consideration the "cumulative effect" of previous policy moves and again mentioned the lag between employing policy and the economic effect. (These are clearly the main themes today.) Powell went on to say that at some point it will be appropriate to slow the pace of increases, but there Is "sufficient uncertainty" surrounding the end-point.

The stock rally was squashed when Powell mentioned the data received since the last meeting (particularly the September CPI report) suggests the *Fed may have to increase the terminal rate beyond the level* previous forecasts had indicated.

Powell said financial conditions have already tightened "significantly," but he does not believe the Fed has overtightened. This is another indication that committee members are not yet ready to signal an end to the tightening cycle. *Again, it'll be the incoming data that determines policy.*

We may have become conditioned to 75 bp increases, but the 50 bps on tap for December is still very restrictive, especially given the cumulative nature of monetary policy. The futures market is now indicating a 50 bp move at both the December *and February* meetings, and another 25 bps in May before rate cuts presumably begin later in 2023. Of course, none of this is certain. Powell mentioned *uncertainty* several times this afternoon.

The futures market is now indicating a 50 bp move at both the December and February meetings, and another 25 bps in May before rate cuts presumably begin later in 2023. Of course, none of this is certain.

If there's a bottom line, it's that Fed officials don't believe the job is anywhere near complete. Powell volunteered that "the committee still has a ways to go" and said "It's premature to discuss pausing." (*With consumer inflation still growing at an annual rate of +8.2%, there is no reason to believe otherwise*.) The October CPI report will be released a week from today, and once again, it will carry significant weight.

If there's a bottom line, it's that Fed officials don't believe the job is anywhere near complete.

Market Indications as of 2:32 P.M. Central Time

DOW	Down -412 to 32,241 (HIGH: 36,800)
NASDAQ	Down -314 to 10,577 (HIGH: 16,057)
S&P 500	Down -45 to 3,812 (HIGH: 4,797)
1-Yr T-bill	current yield 4.73%; opening yield 4.70%
2-Yr T-note	current yield 4.61%; opening yield 4.54%
3-Yr T-note	current yield 4.55%; opening yield 4.49%
5-Yr T-note	current yield 4.30%; opening yield 4.26%
10-Yr T-note	current yield 4.10%; opening yield 4.04%
30-Yr T-bond	current yield 4.14%; opening yield 4.10%