

Markets Rally as Powell Confirms Moderation in Future Rate Hikes

In prepared remarks this afternoon at the Brookings Institute, Fed Chair Jay Powell essentially read from the same recent script as his fellow FOMC members. First and foremost, “by any standard, inflation remains much too high,” and restoring the balance between supply and demand will require “a sustained period of below trend growth.” In other words, “we have more ground to cover.”

Powell granted the FOMC ample leeway saying “the path ahead for inflation remains *highly uncertain*,” and added there is also considerable uncertainty over what constitutes a sufficiently restrictive peak rate. If the markets hadn’t heard all of this before, it might have sparked a selloff in stocks and bonds. So far, it hasn’t. The markets are focusing instead on Powell’s crystal clear comment that *it makes sense to moderate the pace of rate increases as soon as the December meeting*.

Powell ended on a cautious note, saying that restoring price stability will require that policy be maintained at a restrictive level for “some time.” He added that “history cautions strongly against premature loosening of policy.”

The bond market has priced-in a 50 bp hike on December 14th. This now appears certain. The picture gets cloudier in 2023. At the moment, it looks like 25 bp moves are likely at first two meetings of the year, but as Powell has indicated, considerable uncertainty remains over both the path of inflation and the required response.

Today’s speech offered nothing new. *This was a relief.*

Market Indications as of 1:26 P.M. Central Time

DOW	Up 364 to 34,217 (HIGH: 36,800)
NASDAQ	Up 353 to 11,336 (HIGH: 16,057)
S&P 500	Up 57 to 4,015 (HIGH: 4,797)
1-Yr T-bill	current yield 4.74%; opening yield 4.78%
2-Yr T-note	current yield 4.43%; opening yield 4.48%
3-Yr T-note	current yield 4.18%; opening yield 4.24%
5-Yr T-note	current yield 3.86%; opening yield 3.92%
10-Yr T-note	current yield 3.70%; opening yield 3.74%
30-Yr T-bond	current yield 3.80%; opening yield 3.80%

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