

Hawkish Fed Signals Higher Peak Rate

By unanimous decision, Fed officials voted to increase the overnight rate by 50 bps to a 4.25% to 4.50% target range, following four straight 75 bps hikes. Since March, the committee has raised the funds rate by a total of 425 basis points, the most aggressive tightening pace in over 40 years.

This afternoon's move was fully expected. The uncertainty centered on what the FOMC expects to do going forward. The official statement, released at the conclusion of the meeting, provided a big clue with the committee continuing to expect *ongoing increase(s)* in the target range.

The updated December "dot plot" indicated a higher-than-expected median peak rate of 5.1%, suggesting an additional 75 bps may still be in the queue for the first quarter of 2023. This opens the door for another 50 bp move on February 1st. Only two committee members see the funds target *below* 5.0% by the end of 2023.

After a pause in the second half of 2023, the committee has indicated rate *cuts* of 100 bps in both 2024 and 2025. The long-term neutral rate was unchanged at 2.5%.

The committee's summary of economic projections shows significantly weaker GDP, with the 2023 growth forecast trimmed from +1.2% to +0.5%. Fed officials still seem to believe skirting recession is a possibility. The committee also increased their PCE inflation rate forecast from +2.8% to +3.1% for 2023 and +2.3 to +2.5% for 2024. *The committee believes risks to both GDP growth and inflation are weighted to the downside.*

It felt like a shorter-than-usual post-meeting press conference, which probably reduced the possibility of any misinterpretation. Fed Chair Powell reiterated that the committee still has "a ways to go." He said the softer November CPI report was welcome, but indicated it would take more evidence for the committee to be confident that inflation is on a downward path. Powell went on to say "the longer inflation remains high, the greater danger that it will become entrenched." He added that reducing inflation "will require a sustained period of below-trend growth and softening of labor market conditions."

Powell addressed a question on the Fed's 2.0% inflation goal, saying the committee had not discussed changing it. He also sounded a bit frustrated at the resiliency of the labor market, which has kept significant pressure on wages.

Surprisingly, the bond market has waived off the hawkish Fed statement, a higher dot plot and cautious comments by Powell. As of this moment, bonds are mostly flat on the day, with the futures market indicating a peak rate of roughly 20 bps *below* what Fed officials have signaled. Market participants are betting the Fed will pivot sooner as inflation proves less sticky than forecasts indicate.

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

This afternoon's move was fully expected. The uncertainty centered on what the FOMC expects to do going forward. The official statement, released at the conclusion of the meeting, provided a big clue with the committee continuing to expect ongoing increase(s) in the target range.

Market participants are betting the Fed will pivot sooner as inflation proves less sticky than forecasts indicate.

Market Indications as of 2:34 P.M. Central Time

DOW	Down -260 to 33,849 (HIGH: 36,800)
NASDAQ	Down -123 to 11,134 (HIGH: 16,057)
S&P 500	Down -6 to 4,013 (HIGH: 4,797)
1-Yr T-bill	current yield 4.61%; opening yield 4.58%
2-Yr T-note	current yield 4.24%; opening yield 4.22%
3-Yr T-note	current yield 3.95%; opening yield 3.94%
5-Yr T-note	current yield 3.64%; opening yield 3.65%
10-Yr T-note	current yield 3.49%; opening yield 3.50%
30-Yr T-bond	current yield 3.52%; opening yield 3.53%

The paper/commentary was prepared by Hilltop Securities Asset Management (HSAM). It is intended for informational purposes only and does not constitute legal or investment advice, nor is it an offer or a solicitation of an offer to buy or sell any investment or other specific product. Information provided in this paper was obtained from sources that are believed to be reliable; however, it is not guaranteed to be correct, complete, or current, and is not intended to imply or establish standards of care applicable to any attorney or advisor in any particular circumstances. The statements within constitute the views of HTS and/or HSAM as of the date of the document and may differ from the views of other divisions/departments of affiliates Hilltop Securities Inc. In addition, the views are subject to change without notice. This paper represents historical information only and is not an indication of future performance. Sources available upon request.

Hilltop Securities Asset Management is an SEC-registered investment advisor. Hilltop Securities Inc. is a registered broker-dealer, registered investment adviser and municipal advisor firm that does not provide tax or legal advice. HTS and HSAM are wholly owned subsidiaries of Hilltop Holdings, Inc. (NYSE: HTH) located at 717 N. Harwood St., Suite 3400, Dallas, Texas 75201, (214) 859-1800, 833-4HILLTOP.