

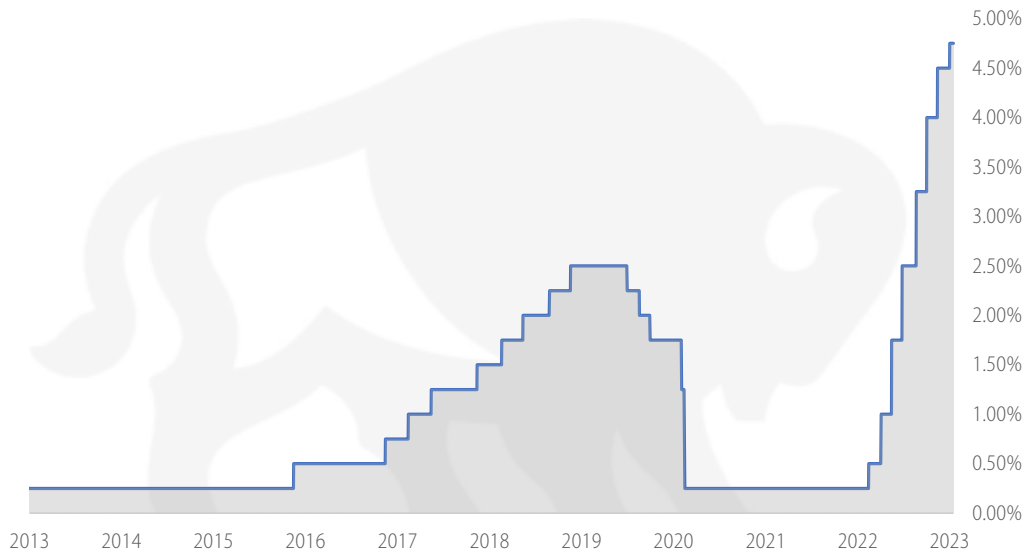
FOMC Raises Target a Quarter-Point, Believes There's More Work to be Done

As was almost universally expected, the FOMC raised the fed funds target by 25 basis points to a range of 4.50% to 4.75%. The vote was unanimous. There were a few minor changes to the official statement as the FOMC acknowledged, "Inflation has eased somewhat but remains elevated." One key change came to the following sentence from December's statement: "In determining the *pace* of future increases in the target range..." with today's statement now reading, "In determining the *extent* of future increases in the target range..." This suggests any debates over how fast to raise rates have now been replaced by a debate about how far to raise rates, which will eventually be supplanted by debate over how long to keep rates at their peak. That tells us the pace of hikes going forward will be 25 basis points, and it also tells us the Fed expects to keep hiking.

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Federal Funds Target Rate (Upper Bound)



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Source: Federal Reserve

The idea that the Fed is not done yet was hammered home by Chair Powell's comments during the post-meeting press conference. Some of the more notable comments from the Chair included:

- While recent developments are encouraging, we will need substantially more evidence to be confident inflation is on a downward path.
- We continue to anticipate that ongoing increases in the target range for the federal funds rate will be appropriate.
- It is our judgement that we are not yet at a sufficiently restrictive stance.
- Restoring price stability will likely require maintaining a restrictive stance for quite some time.
- The historical record cautions strongly against premature loosening of monetary policy.
- Still the highest inflation in 40 years... the job is not done... it is premature to declare victory.

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There really isn't anything new here as this is the same message the Fed has been delivering for several months now. The Fed is certainly pleased with the moderation they have seen in inflation, but they aren't yet convinced the fight is over and believe there is more work to do. While the Fed seems convinced they will take rates higher and keep them there for a while, the market seems equally convinced a reversal is coming later this year.

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Bond markets have jumped around this afternoon with the two-year Treasury note yield climbing to 4.25% after the FOMC announcement but falling below 4.10% following Chair Powell's press conference. Given his somewhat hawkish message, that's a bit of a surprise. The long end of the yield curve has rallied as the Fed's inflation fighting stance remains firmly in place, even as economic data softens.

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Market Indications as of 2:36 P.M. Central Time

DOW	Up 153 to 34,239 (HIGH: 36,800)
NASDAQ	Up 281 to 11,866 (HIGH: 16,057)
S&P 500	Up 45 to 4,121 (HIGH: 4,797)
1-Yr T-bill	current yield 4.65%; opening yield 4.63%
2-Yr T-note	current yield 4.10%; opening yield 4.21%
3-Yr T-note	current yield 3.77%; opening yield 3.91%
5-Yr T-note	current yield 3.49%; opening yield 3.62%
10-Yr T-note	current yield 3.40%; opening yield 3.51%
30-Yr T-bond	current yield 3.55%; opening yield 3.64%

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