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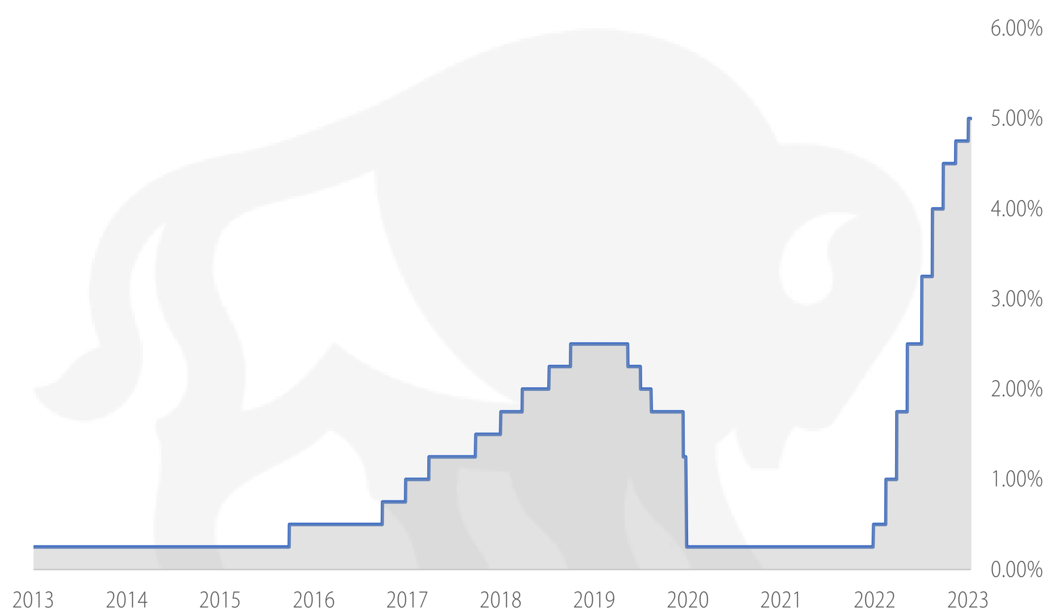
Fed Hikes 25 and Powell Threads Another Needle

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

The FOMC voted *unanimously* to increase the overnight funds rate by 25 basis points to a new target range of 4.75% to 5.0%, the highest level in over 15 years. The second straight quarter-point move followed a 50 bp move in December and four straight 75 basis point hikes in the preceding meetings. Since last March, the Fed has increased the overnight target by a combined 475 basis points.

Federal Funds Target Rate (Upper Bound)



Source: Federal Reserve

Today's hike was generally expected, although evolving concerns over the health of the banking system had cast doubt as to the overall wisdom of continued Fed tightening. In the official statement released at the conclusion of the two-day meeting, Fed officials characterized the banking system as "sound and resilient," while acknowledging that recent financial concerns will likely result in tighter credit conditions, ultimately weighing on economic growth, employment and inflation.

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Committee members described recent job gains as "running at a robust pace," but more importantly, *softened their policy outlook*, substituting "…anticipates that some additional policy firming *may be appropriate*" in place of "anticipates that *ongoing increases will be appropriate*." It's subtle, but opens a door to pause at the next meeting.

The much-anticipated *first dot plot since the December meeting* was essentially unchanged, signaling one more quarter point hike. The Fed doesn't expect to begin easing until 2024, *in direct contrast to the bond market which expects cuts to begin this summer*. The ending point for next year, according to Fed projections, actually rose

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from a median of 4.1% at the December meeting to 4.3%.

Fed Chair Powell opened his press conference with prepared remarks acknowledging that *a small number of banks* had experienced a "serious problem," before reemphasizing that the banking system itself was sound, and that liquidity support was working. He then admitted inflation was still "too high" and labor conditions remained "too tight."

In the Q&A, Powell said the committee had discussed a pause, and later, that *incoming data* would drive future policy decisions. When asked about *disinflation* comments he'd made at the February press conference, Powell said *that story remained intact*.

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Powell's response to the question of the bond market pricing-in rate cuts this summer in defiance of the Fed's stated policy was: *there will not be a case for rate cuts if inflation and the economy continue on the committee's expected path.*

Powell circled back several times on the notion that recent banking concerns will act to tighten credit conditions going forward. This implies that Fed policy would not have to be as aggressive as it would otherwise, but it's still too early for committee members to signal any type of victory.

The bond market is rallying hard, clearly keying on a few points:

- The committee had *considered* a pause
- Credit conditions are expected to tighten
- Additional firming *may* be appropriate
- The disinflation story remains intact

Stocks initially soared before plunging. Interpretation of what took place this afternoon is ongoing.

Market Indications as of 3:23 P.M. Central Time

DOW	Down -530 to 32,030 (HIGH: 36,800)
NASDAQ	Down -190 to 11,670 (HIGH: 16,057)
S&P 500	Down -66 to 3,937 (HIGH: 4,797)
1-Yr T-bill	current yield 4.48%; opening yield 4.54%
2-Yr T-note	current yield 3.96%; opening yield 4.15%
3-Yr T-note	current yield 3.74%; opening yield 3.97%
5-Yr T-note	current yield 3.53%; opening yield 3.74%
10-Yr T-note	current yield 3.45%; opening yield 3.60%
30-Yr T-bond	current yield 3.67%; opening yield 3.72%