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Quiet Before Next Week's FOMC Meeting

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With the May FOMC announcement just a week away, Fed officials are in the midst of their 10-day quiet period. Before it began, market participants were listening for policy clues. There was no shortage of Fed talk last week, although the overall theme was an unsatisfying wait-and-see.

Last Thursday, Philadelphia Fed President Patrick Harker said the FOMC has *more work to do* in order to drive inflation back to its 2% target. Harker, a current voting member, expects tightening will conclude sometime this year, followed by a pause allowing policy to do its work.

A week ago, Atlanta Federal Reserve President Raphael Bostic told CNBC that "one more move should be enough." From there, Bostic believes Fed officials can pause while cumulative tightening takes effect. Cleveland Fed President Lorretta Mester, sounding much like Bostic, sees policy moving further into restrictive territory, and remaining there "for some time." Neither Mester or Bostic are voting members in 2023, but their mention of a lengthy pause is consistent with Chairman Powell's message.

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Fed Governor Lisa Cook, speaking last Friday, said the policy outlook has grown less clear. Cook mentioned that underlying inflation remains strong and embedded, while the labor market is still strong but recently slowing. The unanswered question in Cook's mind is how much will credit conditions contract as a result of the recent banking turmoil.

Several weeks of relative calm in the banking sector have given way to fresh concern as First Republic Bank bleeds deposits. On Monday, the San Francisco-based bank disclosed that customers withdrew more than $100 billion during last month's panic. In response, First Republic has announced plans to sell assets, restructure its balance sheet and lay off a quarter of its workforce. Despite a $30 billion cash injection last month, the nation's 14th largest commercial bank appears likely to join SVB and Signature Bank as failed institutions. First Republic equity shares, trading at $147 in early February dropped to a new record low of $6.20 this morning.

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The most likely outcome for next Wednesday's meeting, despite this week's unnerving bank news, is a quarter point hike, bringing the overnight target range to 5.00%-5.25%. Based on the words of Fed officials, June will be a data-dependent toss-up. But what appears more certain is that the Fed will be in *no hurry to cut rates*. Core consumer inflation is still running at a +5.6% annual pace. While shelter costs seem to be abating, core service prices remain stubbornly high. Policymakers have made it clear that they'd rather err on the side of overtightening, than face a resurgence of price pressure later this year.

The most recent economic data the Fed will consider next week has been mixed. Initial jobless claims (first-time filings for unemployment benefits) have risen significantly in each of the last three weeks suggesting that employers sense a downturn on the horizon. Existing home sales fell -2.4% in March and are now -22% below the red hot sales pace from a year ago. The median sales price for an existing home climbed to $375,700 in March, but is actually down -0.9% year-over-year.

The latest nationwide challenge for the housing market is a mortgage rate "lock-in," wherein potential sellers are reluctant to give up financing secured near historical lows, and as a result are in a holding pattern. With existing homes (which historically make up 85% to 90% of all sales) stymied by rate shock, new home sales are actually climbing. New single family homes rose +9.6% in March to a 683k annual pace, the highest since last August. Sales are down -3.4% year-over-year, but the median price of a new home sold in March was $449,800, up +3.2% from a year ago.

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In related news, the S&P CoreLogic Case-Shiller 20-City Index reversed seven straight monthly price declines with a +0.06% February increase. It's small, but significant given the weight of shelter cost in CPI.

Market Indications as of 12:18 P.M. Central Time

DOW	Down -56 to 33,475 (HIGH: 36,800)
NASDAQ	Up 121 to 11,920 (HIGH: 16,057)
S&P 500	Up 8 to 4,079 (HIGH: 4,797)
1-Yr T-bill	current yield 4.71%; opening yield 4.56%
2-Yr T-note	current yield 3.99%; opening yield 3.93%
3-Yr T-note	current yield 3.72%; opening yield 3.67%
5-Yr T-note	current yield 3.52%; opening yield 3.47%
10-Yr T-note	current yield 3.45%; opening yield 3.41%
30-Yr T-bond	current yield 3.70%; opening yield 3.66%