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Fed Hikes 25 and Hints at a Pause

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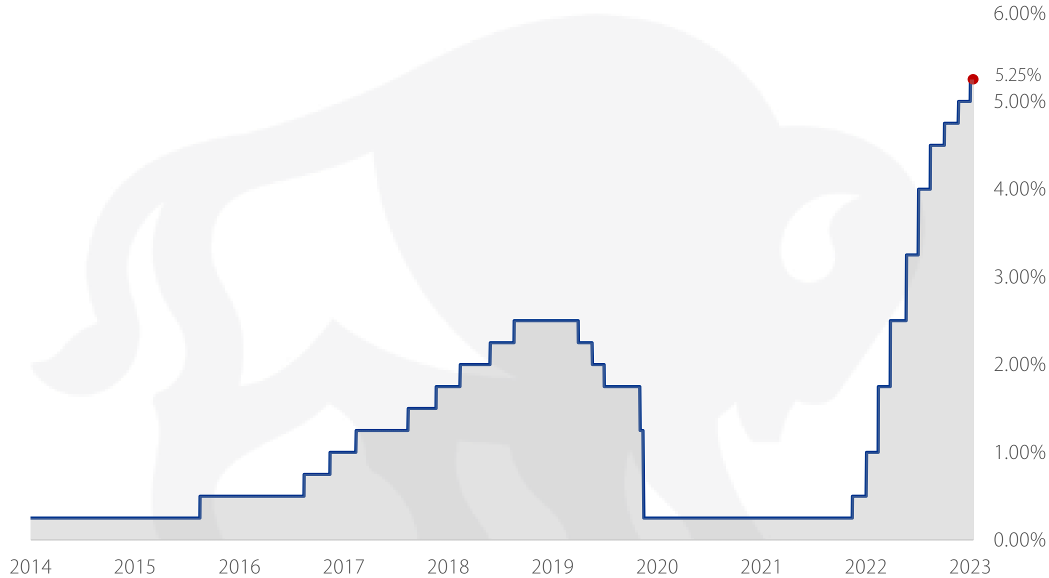
As expected, Fed officials announced another 25 basis point increase in the overnight funds rate bringing the target range to 5.0% to 5.25%, the highest in nearly 16 years. The vote was unanimous. This marks 500 bps of cumulative tightening in just under 14 months.

Federal Funds Target Rate (Upper Bound)



Source: Federal Reserve

The official statement released at the conclusion of the two-day FOMC meeting included a significant wording change to the rate outlook. Whereas the previous statement had read: "The Committee anticipates that some additional firming may be appropriate," the updated statement reads "*In determining the extent to which additional policy firming may be appropriate* …the Committee will take into consideration the cumulative tightening of monetary policy…"

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The official statement was unchanged from the March meeting in saying "the Committee was highly attentive to inflation risks," while job gains are now characterized as "robust," instead of having "picked up." *This actually keeps the door open for a data-dependent Fed to resume hikes if labor conditions don't soften and inflation remains elevated.*

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The Fed's assessment of the U.S. banking system at the May meeting remains "sound and resilient," although committee members acknowledged tightening credit conditions and admitted the effect of this remains uncertain.

In a relatively short prepared statement at the post-meeting press conference, Powell was careful to stick to the script. He led by repeating that the banking system is sound and resilient, and added a dose of calm in claiming that banking sector conditions have "broadly improved."

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He clarified that the Fed will take a data-dependent approach going forward to determine whether additional firming is necessary. He mentioned again that inflation remains well above target, and that labor conditions remained *very tight*.

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There were a number of questions surrounding the effect the recent banking turmoil will have on credit conditions. Powell recognized that the Fed would not need to raise rates as much if banks were tightening credit.

As Powell spoke, the major equity indexes repeatedly climbed and fell. Bond yields were lower before the meeting and continued to sink at the conclusion.

Market Indications as of 2:20 P.M. Central Time

DOW	Down -164 to 33,520 (HIGH: 36,800)
NASDAQ	Up 2 to 12,082 (HIGH: 16,057)
S&P 500	Up 17 to 4,134 (HIGH: 4,797)
1-Yr T-bill	current yield 4.75%; opening yield 4.70%
2-Yr T-note	current yield 3.92%; opening yield 3.98%
3-Yr T-note	current yield 3.62%; opening yield 3.69%
5-Yr T-note	current yield 3.39%; opening yield 3.46%
10-Yr T-note	current yield 3.39%; opening yield 3.43%
30-Yr T-bond	current yield 3.71%; opening yield 3.72%