

## Powell's Jackson Hole Speech Reiterates Higher-for-Longer Fed Policy

This morning in a widely-anticipated keynote speech at the annual Jackson Hole Economic Symposium, Chairman Powell led with a strong message on the Fed's continued inflation fight. He clearly stated that *inflation remains too high*, and that the committee was "prepared to raise rates further if appropriate and intend to hold policy at a restrictive level until we are confident that inflation is moving sustainably down toward our (2%) objective." The only surprise here was his decisively hawkish tone.

Powell spent considerable time explaining the details of *why* prices remain high before discussing the still resilient U.S. economy and what he characterized as "a gradual normalization in labor market conditions."

In recent weeks, a number of analysts, including Nobel Prize winning economist Paul Krugman, had suggested the Fed should increase its +2.0% long range inflation target to +3.0%. Chairman Powell completely dismissed that idea this morning, saying "two percent is, and will remain our inflation target." *This might have been the most important point in his speech.*

Powell then shifted to how uncertain the outlook has become and the imprecise nature of monetary policy, saying "These uncertainties, both old and new, complicate our task of balancing the risk of tightening monetary policy too much against the risk of tightening too little." He concluded with an oddly poetic and unsettling line: "As is often the case, we (Fed officials) are navigating by the stars under cloudy skies."

The takeaway is pretty much as expected - the door is still open for additional hikes although a September pause would be prudent, and at this point the discussion doesn't include rate cuts. *The fact that the Fed intends to adhere to its +2% inflation goal signals that policy will be tighter for longer.*

Several Fed officials weighed-in earlier this week in front of Powell. In an interview with *Yahoo Finance*, Boston Fed President Susan Collins said it's extremely likely that the committee will need to hold rates steady "for a substantial amount of time," and hinted that additional tightening might still be necessary. Collins isn't a voting member this year.

Philadelphia Fed President Patrick Harker, who is a voting member, told CNBC that the Fed "has probably done enough" and should hold rates steady while it assesses the impact.

Chicago Fed President Austan Goolsbee, in an interview with the *Chicago Tribune*, said a soft landing is now more promising. Goolsbee, also a voting member this year, has repeatedly raised caution flags about hiking too aggressively, and like Harker appears unlikely to support an increase next month. He told the *Tribune*, "the

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

*He clearly stated that inflation remains too high, and that the committee was "prepared to raise rates further if appropriate and intend to hold policy at a restrictive level until we are confident that inflation is moving sustainably down toward our (2%) objective."*

*The takeaway is pretty much as expected - the door is still open for additional hikes although a September pause would be prudent, and at this point the discussion doesn't include rate cuts.*

question is not going to be how much more does the rate need to go up, the question is going to be how long do we need to keep rates at this level." This higher-for-longer message has been consistent among Fed officials, regardless of whether they favor additional hikes.

Treasury yields inside of 10 years are higher in early trading as the market adjusts for the possibility of at least one more increase and the likelihood that rate cuts aren't on the near horizon.

*The fact that the Fed intends to adhere to its +2% inflation goal signals that policy will be tighter for longer.*

## Market Indications as of 10:47 A.M. Central Time

DOW	Up 126 to 34,226 (HIGH: 36,800)
NASDAQ	Up 4 to 13,468 (HIGH: 16,057)
S&P 500	Up 6 to 4,382 (HIGH: 4,797)
1-Yr T-bill	current yield 5.44%; opening yield 5.40%
2-Yr T-note	current yield 5.06%; opening yield 5.01%
3-Yr T-note	current yield 4.73%; opening yield 4.69%
5-Yr T-note	current yield 4.44%; opening yield 4.41%
10-Yr T-note	current yield 4.23%; opening yield 4.23%
30-Yr T-bond	current yield 4.28%; opening yield 4.29%

*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.*