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

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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."

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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.

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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

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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.

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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.

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%