Fed Holds Rates Steady, but Hawkish Dots Push Bond Yields Higher

This afternoon, Fed officials voted unanimously to hold the overnight funds target steady at 5.25% to 5.50%. The September pause was fully expected, but a significantly more hawkish outlook was not.

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The updated dot plot still indicates one more rate hike for 2023, bringing the midpoint of the overnight funds target to 5.625%. Twelve of 19 committee members believe another quarter point increase will be appropriate before year end. However, the ending overnight funds target for each of the next two years were 50 basis points higher, with the ending 2024 dot rising from 4.625% to 5.125%, and 2025 from 3.375% to 3.875%. This is consistent with the higher-for-longer narrative that Fed officials have been vocalizing for months. The long-run neutral rate remains at 2.50%. At this point (subject to change), it'll just take longer to get there.

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The official statement released at the conclusion of the meeting was virtually unchanged with the exception of some wordsmithing. The job gains that were "robust" at the July meeting have since "slowed," while economic activity that had been expanding at a "moderate" pace" in July has been upgraded to "solid."

The committee's updated *Summary of Economic Projections* (SEP) shows Fed officials acknowledging economic improvement and the lingering mismatch between jobseekers and job growth. Committee members now expect 2023 GDP to grow +2.1%, more than double the expectation from the June FOMC meeting, while dialing back the peak unemployment rate from 4.5% to 4.1% for both 2024 and 2025.

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It's also noteworthy that a majority of Fed officials have now discarded the possibility of recession. Annual GDP is expected to slow to +1.5% in 2024 before expanding +1.8% in 2025; contraction is no longer on the Fed's radar.

In his prepared remarks at the post-meeting press conference, Powell began by saying the committee remained committed to bringing inflation down to its +2.0% goal while adding that the full effects of tightening have yet to be felt. He acknowledged that high interest rates are causing hardship and weighing on business fixed investment. He went on to say that the committee is now "in position to proceed carefully" in its monetary policy going forward, and that future decisions would be data dependent.

In the Q&A that followed, Chairman Powell said today's pause should not suggest the Fed is finished raising rates. The committee will have to see convincing evidence that inflation is under control, and will proceed carefully in deciding whether another hike will be necessary. Although Powell admitted that policy is now fairly close to where it

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needs to be, he reemphasized the uncertainty of the outlook.

There were several questions on the possibility of a soft-landing (which the SEP seemed to indicate). Powell responded that a soft landing is both possible and a "primary objective," but not a baseline projection. He was elusive on the repeated question of when rate cuts would begin, pointing again to the uncertain outlook.

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The markets took the Fed's overall hawkish message poorly, with both stocks and bonds selling off.

Market Indications as of 3:10 P.M. Central Time

DOW	Down -77 to 34,441 (HIGH: 36,800)
NASDAQ	Down -209 to 13,469 (HIGH: 16,057)
S&P 500	Down -34 to 4,410 (HIGH: 4,797)
1-Yr T-bill	current yield 5.48%; opening yield 5.42%
2-Yr T-note	current yield 5.17%; opening yield 5.09%
3-Yr T-note	current yield 4.85%; opening yield 4.78%
5-Yr T-note	current yield 4.57%; opening yield 4.51%
10-Yr T-note	current yield 4.39%; opening yield 4.36%
30-Yr T-bond	current yield 4.43%; opening yield 4.43%