Fed Minutes Appear More Hawkish than Powell

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The minutes to the December FOMC meeting were expected to clarify Chairman Jay Powell's unexpected and market-moving acknowledgement that the committee had discussed the timing of rate cuts three weeks earlier. As it turned out, any discussion of easing was limited to the interest rate projections, which were known before Powell took the podium at his press conference. In fact, there was very little in the FOMC minutes that signaled a shift in Fed policy was imminent.

The eight pages of committee notes were marked with intended redundancies. Some of the points repeatedly emphasized were:

- Economic activity appears to have slowed
- Labor market demand and supply have moved into better alignment
- Inflation has eased but remains elevated
- *An unusually high degree of uncertainty surrounds the outlook*

Most of the other committee conversations struck a more hawkish tone, creating the impression that progress on lowering inflation has been made, but members are in no hurry to ease policy, and in fact haven't completely dismissed the idea of tightening another notch.

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Participants noted "it was possible that the economy could evolve in a manner *that would make further increases in the target range appropriate*. Several also observed that circumstances might warrant keeping the target range at its current value *for longer than currently anticipated*."

Committee members seemed reluctant to declare even a small inflation victory as the minutes noted "risks around the inflation forecast were seen as skewed to the upside" while "participants remained highly attentive to inflation risks."

A number of participants considered "the downside risks to the economy that would be associated with an overly restrictive stance." This was probably the most dovish comment of the discussion, but given robust third quarter GDP growth and indications that holiday spending was solid, concern over downside risks to the economy are still premature.

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Bonds rallied after the release, which is a little puzzling, except that the market seems to have charted a clear path forward. The minutes did nothing to suggest a March rate cut, and are in fact more supportive of maintaining the target range *for longer*, but the bond market waved it all away.

Market Indications as of 2:42 P.M. Central Time

DOW	Down -223 to 37,492 (HIGH 37,715)
NASDAQ	Down -155 to 14,611 (HIGH: 15,883)
S&P 500	Down -34 to 4,709 (HIGH: 4,797)
1-Yr T-bill	current yield 4.81%; opening yield 4.77%
2-Yr T-note	current yield 4.33%; opening yield 4.33%
3-Yr T-note	current yield 4.08%; opening yield 4.10%
5-Yr T-note	current yield 3.90%; opening yield 3.92%
10-Yr T-note	current yield 3.91%; opening yield 3.94%
30-Yr T-bond	current yield 4.06%; opening yield 4.09%