

## Markets Rally on Fed Confidence

As widely expected, the Federal Open Market Committee (FOMC) voted unanimously this afternoon to hold the overnight funds target steady at 5.25% to 5.50% for the fifth consecutive meeting. However, the main focus of the March meeting was the committee's updated summary of economic projections and news of a possible curtailing of ongoing balance sheet reduction. Neither of the expected focus points were particularly riveting.

The official statement, released at the conclusion of the meeting, was virtually identical to the January statement with the exception of an irrelevant tweak to a single sentence on job gains. As was the case in January, the statement that best summarized the Fed's current policy stance is: "The committee does not expect it will be appropriate to reduce the target range until it has gained confidence that inflation is moving sustainably toward +2.0%." Powell repeated this point *several times* during his post-meeting press conference.

The Fed's much anticipated interest rate projection or "dot plot," continued to show a total of 75 basis points in rate cuts this year, leaving the median funds forecast for the end of 2024 at 4.6%. The 2025 projection showed *one fewer cut*, moving the yearend funds forecast up from 3.6% to 3.9% and the 2026 forecast from 2.9% to 3.1%. The long run neutral rate was slightly higher than in December (2.5% to 2.6%). Powell shrugged off the higher rate projection during his press conference by reiterating that *the dot plot is not a plan*.

The committee's GDP forecast for 2024 increased from +1.4% at the December meeting to +2.1%, while the 2025 forecast was revised upward from +1.8% to +2.0% and the 2026 forecast from +1.9% to +2.0%. In the Fed's mind, the likelihood of recession continues to fade. However, the hopeful soft-landing scenario has been complicated by persistent inflation. The committee acknowledged recent higher-than-expected price pressure by revising 2024 yearend core PCE higher from +2.4% to +2.6%, although the 2025 and 2026 core inflation forecasts were *unchanged* at +2.2% and +2.0% respectively.

Surprisingly, committee members not only maintained the pace of balance sheet runoff at \$95 billion per month, but indicated no impending change. Specific discussions related to the balance sheet will be known in three weeks when the March minutes are released.

Powell was asked several questions during his press conference about the higher-than-expected inflation readings earlier this year. He responded by saying inflation is gradually coming down but the road is "bumpy," a frequently used Powell term. He admitted January CPI numbers were quite high, but believes seasonal effects had played a role. Powell did caution that the lower base that prevailed during the second half of 2023 will make it challenging to bring the annual pace lower in late 2024.

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

*The Fed's much anticipated interest rate projection or "dot plot," continued to show a total of 75 basis points in rate cuts this year, leaving the median funds forecast for the end of 2024 at 4.6%.*

*Surprisingly, committee members not only maintained the pace of balance sheet runoff at \$95 billion per month, but indicated no impending change. Specific discussions related to the balance sheet will be known in three weeks when the March minutes are released.*

When asked if the Fed could cut rates in May, the Chairman offered nothing other than *decisions are made meeting by meeting*. He later mentioned that if the committee eased too much or too soon, inflation could come back, and if the committee eased too late, it could harm the labor market.

There were several questions on the labor market, which Powell described as being “in good shape.” As labor relates to inflation, Powell said the committee is targeting inflation not wages.

On the topic of the reducing the pace of QT or balance sheet reduction, Powell said *no decisions were made today*. He went on to say the general sense is that it will be appropriate to slow the pace “soon.”

Overall, the press conference had a dovish tone as Powell was upbeat on the economy and consistent in his view that the warmer inflation readings in January and February have not changed the Fed’s belief that inflation is on a downward trek.

Bonds have managed to sustain a small rally that began before the Fed announcement, while stocks turned from pre-meeting red to solid green. *All three major indexes closed today at record highs.*

The Fed Chairman isn’t worried. Why should we?

*Overall, the press conference had a dovish tone as Powell was upbeat on the economy and consistent in his view that the warmer inflation readings in January and February have not changed the Fed’s belief that inflation is on a downward trek.*

## Market Indications as of 3:28 P.M. Central Time

DOW	Up 401 to 39,512 (NEW HIGH)
NASDAQ	Up 203 to 16,369 (NEW HIGH)
S&P 500	Up 46 to 5,225 (NEW HIGH)
1-Yr T-bill	current yield 4.99%; opening yield 5.04%
2-Yr T-note	current yield 4.62%; opening yield 4.66%
3-Yr T-note	current yield 4.41%; opening yield 4.45%
5-Yr T-note	current yield 4.26%; opening yield 4.28%
10-Yr T-note	current yield 4.28%; opening yield 4.27%
30-Yr T-bond	current yield 4.46%; opening yield 4.43%

*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.*