Fed Holds, but Markets Rally on QT Reduction

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As expected, the Federal Open Market Committee (FOMC) voted 11-1 this afternoon to maintain the overnight funds target at 4.25%- 4.50% for the second straight meeting, while sharply reducing its monthly balance sheet runoff (quantitative tightening). The one-page official statement, usually an afterthought, was uncharacteristically insightful. The committee deleted a sentence from the January statement saying risks to employment and inflation goals were balanced and added that "uncertainty around the economic outlook had increased." Also in the statement was an announcement that the amount of Treasury securities allowed to mature will drop from $25bn to $5bn per month beginning in April. Agency and mortgage-backed security runoff will remain at $35bn per month.

The first Summary of Economic Projections (SEP) since mid-December showed committee members reduced their economic growth forecasts while increasing inflation expectations.

- The GDP forecast has been lowered across all three years: for 2025, from +2.1% to +1.7%, 2026 from +2.0% to +1.8%, and 2027 from +1.9% to +1.8%.
- The unemployment rate forecast for 2025 was boosted from 4.2% to 4.3% but was maintained at 4.3% for 2026 and 2027.
- The core PCE forecast increased from +2.5% to +2.8% for 2025, and +2.1% to +2.2% for 2026, but was unchanged at +2.0% for 2027.

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In the post meeting press conference, Fed Chairman Powell was generally positive, although the overriding message was that the committee is waiting for further clarity in a highly uncertain environment. In Powell's opinion, "the cost of waiting is very low given the continued health of the economy."

On the employment side, Powell mentioned current hiring and firing rates are both fairly low and believes the labor market remains in balance. He is not overly concerned about a severe economic downturn, stating that recession risks have moved up but are not high.

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Regarding inflation, Powell asserts that "underlying inflation is still in the twos," while tariff-related inflation is expected to be temporary. The Fed Chairman admitted that trade policy could delay progress on rate reduction and reiterated that the committee continues to be in no hurry.

Stocks and bonds rallied hard after the initial announcement and continued as Powell spoke, presumably due to the announced reduction in QT, which implied less Treasury supply for the markets to absorb.

Powell's inflation assessment was upbeat, but quite different from how most Americans view prices. Last week, the University of Michigan consumer sentiment survey for March showed inflation expectations over the next five to ten years rose 0.6 percentage points to 3.9%, *the highest level in over three decades.* Short term expectations were also up 0.6 points from 4.3% to a two-year high of 4.9%. Granted, these are only expectations, but persistent expectations for higher prices would put upward pressure on yields.

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Market Indications as of 2:53 P.M. Central Time

DOW	Up 388 to 41,969 (HIGH: 45,014)
NASDAQ	Up 262 to 17,766 (HIGH: 20,174)
S&P 500	Up 74 to 5,689 (HIGH: 6,144)
1-Yr T-bill	current yield 4.09%; opening yield 4.09%
2-Yr T-note	current yield 3.98%; opening yield 4.04%
3-Yr T-note	current yield 3.96%; opening yield 4.02%
5-Yr T-note	current yield 4.03%; opening yield 4.08%
10-Yr T-note	current yield 4.25%; opening yield 4.29%
30-Yr T-bond	current yield 4.56%; opening yield 4.59%