Post FOMC Rumblings

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The Federal Open Market Committee held the overnight rate target steady yesterday while slowing the pace of its portfolio runoff. Fed Chairman Jay Powell once again reported that the U.S. economy is in a good place while pre-dismissing any future "tariff-inflation" as transitory. With the risk of recession "not high" and committee members still forecasting two rate cuts later this year, both stocks and bonds rallied. However, a number of noted economists expect a far less positive outcome.

Allianz senior economic advisor Mohamed El-Erian called Powell's use of the word "transitory" a big policy mistake. El-Erian is concerned that short-term pain could turn into long-term suffering. His comments suggest that tariff-inflation is potentially a more deeply rooted problem that could sideline the Fed for longer.

David Rosenberg of Rosenberg Research & Associates is less concerned about inflation and more concerned about a rapidly weakening economy. The former Merrill chief economist made headlines this morning with a dire social media post: "The recession nobody believes will rear its ugly head will materialize as early as July." Rosenberg's forecast is based on the expected rise in unemployment which he believes will force the Fed to cut significantly more in 2025.

Combining El-Erian's inflation worries with Rosenberg's recession prediction raises the possibility of stagflation if the global trade war were to escalate further. Former Treasury Secretary Larry Summers summed it up well earlier this week in saying Fed officials are in a hard position navigating what he referred to as a "stagflationary shock."

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Powell has mentioned repeatedly that the committee is not on a preset policy course. Most recent economic releases considered by policymakers reflect pre-tariff data. This promises to change over the next several months as retaliatory responses kick in.

President Trump added to the muddled picture yesterday after the Fed announcement, posting that the Fed would be "…MUCH better off CUTTING RATES as U.S. tariffs start transitioning (ease!) their way into the economy." *Expect White House pressure to increase while monetary policy remains on hold.*

The U.S. economy is clearly in transition, but the outcome is much less clear. Market volatility isn't going away anytime soon.

Market Indications as of 1:39 P.M. Central Time

DOW	Down -58 to 41,907 (HIGH: 45,014)
NASDAQ	Down -102 to 17,649 (HIGH: 20,174)
S&P 500	Down -20 to 5,656 (HIGH: 6,144)
1-Yr T-bill	current yield 4.06%; opening yield 4.07%
2-Yr T-note	current yield 3.96%; opening yield 3.96%
3-Yr T-note	current yield 3.94%; opening yield 3.95%
5-Yr T-note	current yield 4.01%; opening yield 4.01%
10-Yr T-note	current yield 4.24%; opening yield 4.23%
30-Yr T-bond	current yield 4.56%; opening yield 4.54%