

## Short Yields Rise and Long Yields Plunge as Fed Member Goes Off Script

St. Louis Fed President James Bullard told CNBC's *Squawk Box* this morning that he believes it would be prudent to begin hiking the overnight target rate *late next year* with inflationary pressure proving hotter than the Fed had anticipated. This is quite a bit earlier than the most recent dot plot had revealed on Wednesday afternoon. Bullard expects inflation to run at a +3.0% pace this year and +2.5% in 2022. He believes this would meet the Fed's somewhat ambiguous plan to allow inflation to run above its +2.0% target "for some time." Bullard also sees some upside risk to prices, and cautions that we are likely to experience a lot of volatility, suggesting monetary policy will remain in flux. Bullard has served 12 years in his current position as President and CEO of the St. Louis Fed, *and will be an FOMC voting member in 2022.*

Bullard's comments were unexpected and market reaction was harsh. The front end of the bond market sold off, quickly pushing two- and three-year Treasury yields up to 0.27% and 0.49% respectively. The extreme short end didn't budge as any rate hike late next year has no impact on a 6- or 12-month bill. The long end rallied big with 20- and 30-year Treasury bond yields falling to their lowest levels in four months, as early Fed tightening would limit future economic growth and reduce inflation expectations going forward. The long end rally was also fueled by technical factors as traders covered short positions. All three major stock indexes are down on the prospect of less accommodative Fed policy.

The fact that a single FOMC member, albeit a very credible one, could have a such a dramatic effect on the financial markets by offering his opinion on what he thinks may be appropriate 15 to 18 months from now, reinforces how uncertain investors are in the midst of unprecedented monetary and fiscal policy. Bullard's bold comments are certain to elevate interest in what other Fed speakers have to say. Next week, eight Fed officials will be in front of the microphone, including Chairman Powell himself.

### Market Indications as of 1:43 P.M. Central Time

DOW	Down -438 to 33,386 (HIGH: 34,778)
NASDAQ	Down -122 to 14,039 (HIGH: 14,174)
S&P 500	Down -38 to 4,184 (HIGH: 4,255)
1-Yr T-bill	current yield 0.09%; opening yield 0.06%
2-Yr T-note	current yield 0.26%; opening yield 0.22%
3-Yr T-note	current yield 0.47%; opening yield 0.44%
5-Yr T-note	current yield 0.88%; opening yield 0.89%
10-Yr T-note	current yield 1.45%; opening yield 1.51%
30-Yr T-bond	current yield 2.03%; opening yield 2.10%

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