

Fed Hikes 50; Markets Cheer Fed Resolve

At conclusion of the third FOMC meeting of the year, Fed officials announced the first half point rate hike since 2000, pushing the overnight rate target to a range 0.75% to 1.00%. They also laid out a plan for reduction of their bloated QE balance sheet; beginning on June 1st with permitted runoff of \$47.5 billion, doubling to a maximum of \$95 billion per month by September.

The committee shrugged off the negative first quarter GDP print, characterizing household spending, business investment and job gains as “strong.” On inflation, Fed officials warned the recent COVID-related lockdown in China is likely to exacerbate supply chain disruptions, while the war in Ukraine is likely to create additional upward pressure on inflation and weigh on economic activity in the near term.

Before the press conference, analysts picked apart the single-page official statement for any additional clues on future outlook. One comment stood out with committee members being “highly attentive to inflation risks.” Other than that reassuring measure, there were no real surprises in the prepared statement. Both stocks and bonds bounced around waiting for Powell to begin his press conference, which promised more detail.

In his prepared statements, which were interestingly addressed to the American people, Fed Chairman Powell said:

- Additional 50 bp increases should be on the table for the next couple of meetings . . . this was already priced-in
- Fed Intends to “significantly” reduce the balance sheet through maturity runoff . . . *no mention of sales*
- Labor market is extremely tight; labor supply is subdued
- Economic momentum is strong; economy is well-positioned to handle tightening
- Fed will be nimble; will continue to adapt; decisions will be made meeting-by-meeting; will strive to avoid adding uncertainty through clear and open communication
- Strongly committed to achieving price stability; further inflation surprises may be in store

Notable answers to questions:

- A 75 bp hike is not being actively considered by the committee
- Core PCE inflation may be reaching a peak
- When the inflation trend retreats, the Fed will make a judgement call on whether to return to smaller 25 bp increases
- The economy is strong; nothing suggests it’s vulnerable to recession
- We have to look through the numerous supply shocks; the Fed can only affect the demand side
- Balance sheet runoff will have a similar effect to one rate hike per year

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As Powell talked, stocks and bonds rallied huge. What investors heard was a confident, consistent Fed committed to achieving price stability, clearly promising 50 bps hikes in June and July with a willingness to adjust if necessary. 75 bp hikes are apparently off the table. The fact that Fed officials have essentially mapped out monetary policy through the entire summer has managed to calm investor nerves. For now, it's a sigh of relief, and a tip of the hat to Powell's communication skills.

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Market Indications as of 2:41 P.M. Central Time

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| DOW | Up 897 to 34,026 (HIGH: 36,800) |
| NASDAQ | Up 376 to 12,939 (HIGH: 16,057) |
| S&P 500 | Up 100 to 4,276 (HIGH: 4,797) |
| 1-Yr T-bill | current yield 2.00%; opening yield 2.10% |
| 2-Yr T-note | current yield 2.65%; opening yield 2.80% |
| 3-Yr T-note | current yield 2.83%; opening yield 2.98% |
| 5-Yr T-note | current yield 2.91%; opening yield 3.03% |
| 10-Yr T-note | current yield 2.92%; opening yield 2.98% |
| 30-Yr T-bond | current yield 3.01%; opening yield 3.02% |

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