Fed Goes 75 Once Again With More to Come

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This afternoon as expected the FOMC raised the overnight funds rate by 75 basis points, bringing the target range to 3.00% - 3.25%, the highest since early 2008. In just over six months, Fed officials have now increased the key lending rate by a total of 300 bps, while indicating *ongoing rate hikes are appropriate*.

The latest "dot plot" showed a median forecast of 4.25% - 4.50% at the end of this year (up 100 bps from June's dot plot) and 4.50% - 4.75% by the end of 2023. Fed officials now expect rate cuts won't start for another two years, with the year-end median forecast at 3.9% in 2024 and 2.9% in 2025.

The new target rate projection signals yet another 50 or 75 basis point hike in November, followed by a 50 bp increase in December, with committee members generally split on whether its 100 or 125 over the last two meetings of 2022. This was mostly in line with the pre-meeting market outlook. However, the extended period of elevated rates rattled the markets as it indicates a more resolved Fed stance than had been expected.

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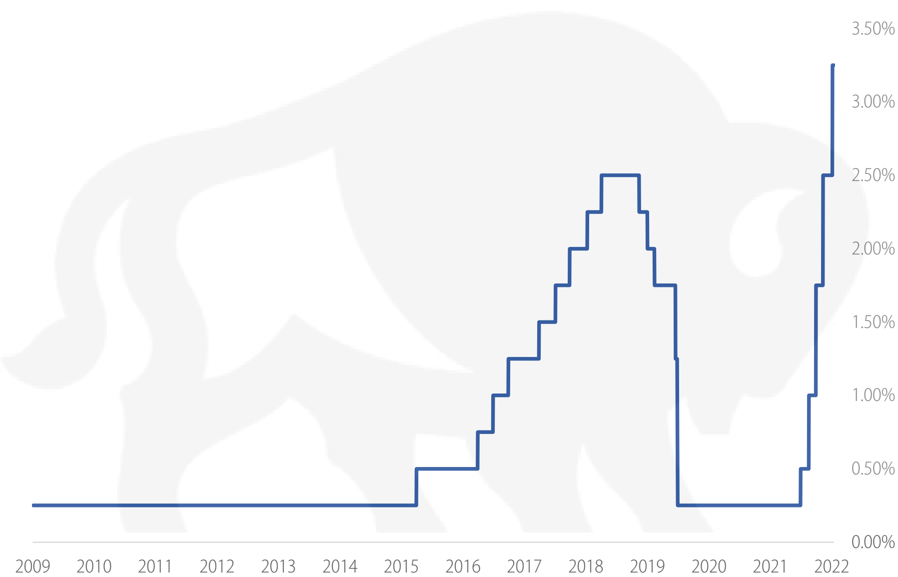
Federal Funds Target Rate (Upper Bound)



Source: Federal Reserve

There were few changes in the official statement issued at the conclusion of the meeting. Two sentences that continue to stand out are that the committee remains "highly attentive to inflation risks," and that it is "strongly committed to returning inflation to its 2% objective."

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The updated Summary of Economic Projections (SEP) showed the median GDP forecast for all of 2022 down sharply from +1.7% at the June meeting to just +0.2%, while the 2023 forecast is now +1.2%. The median forecast for the rate of core inflation is +4.5% in 2022, +4.6% in 2023, +3.9% in 2024 and +2.9% in 2025. This slow retreat supports the idea that the Fed may need to keep rates high for years before inflation moves significantly lower.

Powell's prepared statement at the post-meeting press conference focused on price stability. To achieve this, Powell said monetary policy would need to be "sufficiently restrictive." He described the current Fed action as "forceful and rapid." He said committee members are acutely aware that inflation is causing pain and will be watching for compelling evidence in the coming months that it's moving lower. He added that it will become appropriate at some point to slow the pace of rate increases, and that decisions will be data dependent on a meeting-by-meeting basis.

In the Q&A, Powell said below-trend economic growth and a softening of labor conditions were necessary to bring down inflation. Powell "wished there was a less painful way to bring down inflation," but acknowledged "there is not." He reiterated that once the target rate reaches a restrictive level, the Fed is likely to keep it there for some time.

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Powell was purposely vague on the question of recession, but said the likelihood of below-trend growth is high. He talked about the record number of job openings, which he believes could buffer the economic downturn, but at the same time will need to decline significantly in order to cool inflation.

Stocks and bonds dropped sharply after seeing the hawkish turn in the dot plot, turned around early in the press conference, but fell again as Powell continued answering questions.

The bottom line is that the Fed has no choice but to get inflation under control as quickly as possible. Monetary policy acts with a significant lag, so the extreme action taken since March has yet to work its way through the economy. But, until the pain of economic weakness outweighs elevated price pressures, more rate hikes are in the queue. And, in order for the aggressive front-loading of Fed policy to be effective, investors have to believe policy-makers are serious. *Today, they believe.*

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Market Indications as of 2:52 P.M. Central Time

DOW	Down -380 to 30,326 (HIGH: 36,800)
NASDAQ	Down -147 to 11,278 (HIGH: 16,057)
S&P 500	Down -32 to 3,823 (HIGH: 4,797)
1-Yr T-bill	current yield 4.05%; opening yield 3.99%
2-Yr T-note	current yield 4.04%; opening yield 3.96%
3-Yr T-note	current yield 3.99%; opening yield 3.93%
5-Yr T-note	current yield 3.75%; opening yield 3.74%
10-Yr T-note	current yield 3.52%; opening yield 3.56%
30-Yr T-bond	current yield 3.51%; opening yield 3.57%