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Weekly Commentary

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A hike and then some

The big day turned out to be even bigger.

Wednesday the Federal Reserve lifted interest rates for the first time in two years, raising the fed funds target range from 0.00-0.25% to 0.25-0.50%. This jump was as telegraphed as any hike in recent memory, as Fed Chair Jerome Powell said in an appearance before Congress he would recommend the 25 basis-point move.

What was less expected was the forcefulness of the Fed's response to still surging inflation. While Powell's earlier comments scuttled a half-percentage-point move at the Federal Open Market Committee meeting, the "dot plot" projected a robust six more quarter-point hikes this year. That would take the target range to 1.75-2%, with more penciled in the following year. Powell remarked several times in the press conference following the release of the policy statement that each FOMC gathering would be a "live meeting," meaning policymakers might end up raising the range 50 basis points at a meeting, after all.

Through all the unknowns and predictions, one thing seems clear: the increase is beneficial to liquidity investors. Past results are never a guarantee, but rates and yields on assets cash managers buy for their portfolios usually increase as the target range rises. The Treasury yield curve should continue to steepen as the year progresses.

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