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Weekly Commentary

MAY 9, 2022

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Undeniably hawkish Fed

Just like a smudge on polished silverware sticks out, the markets obsessed about a small dovish divergence in an otherwise hawkish Federal Reserve policy meeting last week.

The Federal Open Market Committee raised the fed funds target range from 0.25-0.50% to 0.75-1%, but Chair Jerome Powell dismissed the notion that the next hike would be 75 basis points, intimating 50 in each of the next two meetings. His comments—and the hike itself being the largest in 22 years—were undeniably aggressive. He said the economy and wellbeing of Americans depends on price stability and the Fed will do whatever is necessary to achieve that as it battles inflation. That also includes sharply reducing its balance sheet. It announced it will do so in a passive manner, starting June 1 with a cap of $30 billion Treasuries and $17.5 billion mortgage-backed securities per month allowed to roll off, ramping up to $60 billion and $35 billion in September.

Powell's pushback against a hike of a greater magnitude was not even really dovish, but simply less hawkish, a misinterpretation that sent indexes soaring before investors realized the Fed's position is taking a hard line. In any case, the jump in rates likely will continue to benefit investors in cash alternatives. There's no blemish to be seen there.

G40461-19 (5/22)