

## Did He, Or Didn't He? That is the Question

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Markets responded incredibly well to yesterday's FOMC meeting. The Nasdaq was up over 4%, CDX IG tightened 4 bps, high yield bonds were up about 1%, the 2-year Treasury dropped 6 bps (despite a 75-bps hike), and the 10-year moved a couple bps lower as well.

Did Powell come across as dovish? Did he make the case that the Fed would take into account economic risk? That the Fed was data dependent? That the Fed was almost done hiking?

I've read the transcript several times and keep thinking that:

- He did a very good job suggesting that we are near a neutral rate. That is positive for markets and dovish.
- He mentioned "data dependency" several times and did mention some concerns about the economy. Slightly dovish.
- On the other hand, he tried to drive home the point that fighting inflation is still the priority and that he would sacrifice the economy and jobs for lower inflation since inflation is so problematic. He didn't even take 75 bps off the table for September and said they could hike above neutral to fight inflation. Hawkish.

On what Powell said, **I'd put the press conference on about a 7.5 out of 10 in terms of hawkishness.** Maybe some were expecting 100 bps and a more hawkish tone, but I thought he delivered a message **more or less in line with market expectations.**

### Maybe the Question is Credibility? The Economy? Politicians and the Media?

Since the market responded as though Powell was more dovish, we need to examine a few things more closely:

- Did Powell sound more credible and committed when he was talking "dovish" rather than "hawkish"? While on the face of it, his answers were skewed slightly hawkish, maybe (and this I can be convinced of) he sounded more believable when giving dovish answers.
- Is everyone pricing in weaker data? The Fed used the phrase "data dependent" and it seems to be expecting data that would encourage more hikes. Maybe the market is thinking about the data and decided that the Fed won't need to hike much more (I'm definitely in this camp, though I'm expecting malignant rather than benign data).
- Have the politicians woken up to the fact that job losses and recessions are worse than inflation in terms of getting re-elected? Has the media realized that inflation headlines no longer act as clickbait, so they need to move to recession stories? While the Fed is apolitical, the pressure from politicians and the media may be changing, which would also put some pressure on everyone to balance the battle of inflation versus recession.

**Considering these points, I could see yesterday's FOMC meeting being much closer to neutral** (or a 5 out of 10 in terms of hawkishness). That fits well with how the market responded.

### Too Little, Too Late?

I would have liked to have seen more acknowledgement that we need to be careful on the economy. I

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remain worried that the job cuts and the problems showing up in consumer behavior, etc., have been triggered and are self-reinforcing (in a negative way). Russia remains a problem, especially for Europe. I would have also liked to have seen more acknowledgement that Fed did enough to squeeze out more shorts and allow some animal spirits loose. The 75-bps hike (on top of everything they've already done) and the ongoing QT are more than priced into markets.

**Bottom Line**

Today's GDP print (GDP fell 0.9% in the second quarter) has limited potential to move markets dramatically. Given how the market interpreted Powell, my thought was that any small number (including a small negative number) would be slightly good for markets as the data dependency argument gets tilted dovish. It would have taken a large positive number or a large negative number to knock risk assets down.

I want to fade yesterday's move in risk assets. But after reaching the conclusion that the press conference was not hawkish, we need to see economic data and earnings that support the "too little, too late" view to turn very bearish. I (like the Fed) am very data dependent here and I just think the data will be weak.

**Fortunately, we get a lot of earnings and economic data in the next few weeks that will give us some clarity!**

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