The Powell Bombshell!

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Chair Powell uncharacteristically, but inevitably, in Senate Testimony this past Tuesday ahead of the FOMC Meeting on December 14-15, recognized the strong economy, high inflation that is *not* transitory, and rapidly falling unemployment rate to indicate a coming earlier consideration of accelerating tapering and, by implication, a first and subsequent federal funds rate hikes.

Unexpected was the obvious intention of Chair Powell to signal a reassessment *ahead* of the coming FOMC Meeting, front-running his colleagues, to my memory the first time—*a clear signal of what is to-come.*

But this quite well-based on evidence reaction by the newly reappointed Chair was actually inevitable on the data—a hot U.S. economy, flame of higher inflation, and rapidly tightening labor market. *The when-of-it was the surprise!*

Chair Powell is quite evidential, looks at the data, is fiercely nonpartisan, keeps the Federal Reserve independent, and is very clear in what he says—all refreshing and great reasons for an appropriate reappointment by President Biden.

This, and the whole thrust of what on DE forecasts was coming, was unexpected to markets with the equity market particularly registering surprise, dismay, and another big selloff. *The new Coronavirus variant, Omicron, played a role, but most likely this signaling of a fundamental shift to less Accommodation*, sooner, by the Federal Reserve is what is mostly responsible for the selloffs. Safe-haven movement of funds can be seen in the sharp move downward for the 10-year U.S. Treasury yield—but is only that.

Short-term, getting out-of-the-way is prudent. But, *longer-term*, and *this is unclear* with a likely super strong employment report to-come this Friday, *the Bull Equity Market should stay intact*, given the stage of a very strong and Boomy Expansion we are in.

DE remains bullish equities longer-term, bearish fixed income, expects the tapering to end by March or April 2022 and the first federal funds rate hike, one-quarter percentage point, to come in May. *Subsequently, three additional federal funds rate hikes are expected, one-quarter percentage point each.*

This forecast, as has been previous DE forecasts, is hawkish relative to the Fed and markets, but still leaves monetary policy as very Accommodative.

Why the Bombshell?

In actuality, the U.S. economy is growing very, very strongly, has been in a Boomy Expansion, with quite high inflation and a risk of even higher although most likely some deceleration, still stronger and higher price inflation than previously and a lower unemployment rate, sooner, than the Federal Reserve and others had expected.

Chair Powell's comments were simply the beginning of catchup for the Federal Reserve.

Once financial markets adjust to the much more hawkish Federal Reserve, but with an uncertain timeline, the Equity Bull Market should resume and long-term interest rates move higher.

What is going on is a Fed "Behind-the-Curve" and very typical of most business cycle situations in history.