The Fed Takes Aim!
J-Hole; Reactions and Implications

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An extremely Hawkish, intentionally so, speech by Chair Powell on Friday and a well-orchestrated chorus of similar commentaries by five Federal Reserve Presidents in J-Hole interviews with the media—*was not really a surprise*—although perhaps Chair Powell's vehemence and purposeful zinger was kind of out-of-character.

Markets—Short-Run

All at J-Hole *Dollar positive*, particularly against the Yen. *Negative Fixed Income*, underscoring, on average, the *Bear Market in Fixed Income* that will keep going for quite awhile. This is longer-run as well as short-term.

Short-run negative equities, although the implied interest rate forecasts and extra special going out-of-the-way to tell market participants that interest rates will keep going up and stay up because of entrenched high inflation should not have been a surprise.

Short-run, after a big rally in a big Correction, taking profits and on hinted upside risks for further upside on interest rates a reason to take profits, still really not a surprise. The *extent* was. But, these days, and especially on Fed uncertainty, huge moves and volatility are part of the landscape.

Man-on-a-Mission

Chair Powell was a Man-on-a-Mission to disavow and to make clear, no surprise, higher interest rates and *no* pivots at any time, really hawkish, on purpose, going out-of-the-way and maybe even out of character. The Fed will keep raising interest rates until inflation gets down, far down, for a good while, permanently so, frontloading higher interest rates, and *with inflation entrenched high keeping interest rates up. This has been the DE forecast, no surprise, but one may be to the stock market.* Keep rates up, keep rates up—messages of all Fed speakers, like a chorus, in unison. A Baptist Sunday Sermon and response of the followers.

No Change to DE Fed Forecasts

Powell's vehemence, manner and body language, not content, the surprise, with the DE forecast on interest rates the same, up 50, 25, 25 bps on September 1, November 2 and mid-December, then 25 bps. a quarter next year for federal funds, to a 4-3/8% federal funds rate, 4% plus 10 year U.S. Treasury bond. *No reductions* because inflation will be entrenched high, 4% plus Q4-over-Q4, down significantly from currently, but too high for the 2% Federal Reserve objective which will have to be revisited at some point. That silly fictional figure is conceptual and not even forecasted by the Fed in their last forecast go round.

Rising Rates Alone Don't Give a Downturn

On own, these rising rates wouldn't give a Downturn, correctly defined, except in Housing where already there is a good-sized one. Is no general Recession now, wasn't in the first half. *Real GDP growth is picking up in Q3, the inflation peak is over* on the Personal Consumption Deflator (PCE). But the "inflation genie is out-of-the-bottle" and price inflation still way too high. *The direction of movement is now right for inflation, but it is way too early for Members of the Federal Reserve to say anything like "mission accomplished"—just the opposite.*

Some Observations—Fed Messaging

Powell overdid the rhetoric, a bit phony and contrived, but purposely wanted to clearly dispel an optimistic futures market pricing or financial conditions forecast that via the stock market in his view would be hurting the inflation fight. *This could be really bad if the markets think Chair Powell is out to get the stock market.*

If that, another policy error will have been made and overdone down on stocks.

The Fed alone can't bring down inflation so demand-pull in origin and supply-shock determined, but needs to reestablish credibility on its inflation stable goal.

So got a fight here, possibly! All hands at the Fed are on board. Lots of commentary coming this week will reemphasize, underscore, and emphasize the J-Hole message.

Forecasts

Negative fixed income, positive dollar, stocks on S&P still in big Correction range, with downside, and on DE metrics recently on the high side of a range with 4200 on the S&P 500 central plus a little and the minus range a few hundred points below, set by the past bottom in June.

Still a 30% risk of Recession next 12 months and 60% Odds a major slowdown but still Expansion, with consumption weaker but carrying the economy.

More Observations on the Fed

The Fed made a huge error being way wrong on price inflation and the Powell rhetoric, while understandable, appears to have been driven by the Fed funds futures and bullish stock market, Fed credibility generally has been hurt and reactions suggest more policy errors likely.

The Fed should keep its eye on the inflation ball, the process and the labor market, and not run policy on the volatile futures funds and stock market reactions and actions.

Coming Data in Context of the Federal Reserve

Should be solid but a weaker Labor Market Report this Friday (Sept. 2) for August with wage inflation picking up. See this week's "Worldwide Economic Indicators." Pre- this week's indicators and comments, no change in the inflation view is expected and growth in Q3 Real GDP should pick up.

Repeating Some Forecasts

Dollar forecasts remain new highs against the Euro, now through parity, a prior forecast; really big gains for Dollar on Yen, gains on the Pound, the Canada Dollar; and Asian currencies including over 7 against the Chinese Yuan, and the U.S. Dollar eventually a significant issue.

No changes in interest rate forecasts. Up!