



February 3, 2023

Dove's crash landing

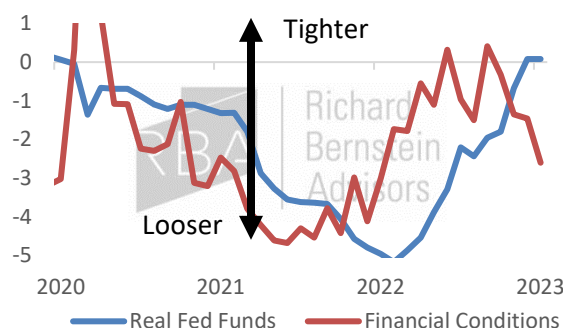
Though this week's Fed decision to hike rates by 25bps was far from a surprise, Chair Powell certainly provided some shock and awe during the press conference. Unfortunately, the shock and awe was on behalf of those market participants expecting hawkish language. Rather than try and nip the speculative fervor in the bud (crypto, speculative technology to the moon), the Fed instead made one thing crystal clear: It doesn't care about the loosening of financial conditions and hence the re-inflation of asset bubbles if inflation is falling.

What the Fed seems to be missing is those loose financial conditions will likely start to contribute to inflation. As high multiplier sectors like housing take back off, credit loosens and capital markets allow for a misallocation of capital, the Fed risks undoing much of the progress they have made since hiking rates and starting quantitative tightening. One could credibly make the argument that this week's press conference was as big a blunder as any since Covid - mostly because it wasn't a miscommunication. Powell's intent was clear: "Risk on, mission almost accomplished. We're not going to get in the way of markets, so have at it."

To say financial conditions were tighter, as he did in the press conference, was ludicrous. Does Chair Powell not know the difference between tighter/more restrictive policy and financial conditions? And right on cue: the Change in Payrolls was shockingly large this morning as average hourly earnings were higher than expected and the unemployment rate fell to 55 year lows.

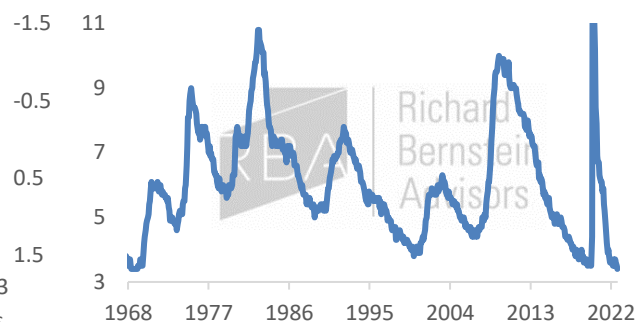
It's clear to us the Fed was prematurely overconfident, risking more equity volatility, a more inverted yield curve and an ever-higher chance of a hard landing.

Chart 1: Although the real Fed Funds rate is now restrictive, financial conditions are back to pre-hike levels



Source: Bloomberg Finance L.P., Richard Bernstein Advisors LLC

Chart 2: The Unemployment Rate hit a >50y low today as wages surprised to the upside



Source: Bloomberg Finance L.P.

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