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Fed announcement: Fuzzy wuzzy was a Hawk

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The Fed surprised markets with a relatively hawkish SEP, removing two rate cuts in 2025, whereas the market was expecting three cuts. What's more, the committee looks fairly unified behind the two rate cut number for 2025 and there were also four members favoring no move today (although only one was a voting member).

In the press conference, Powell's main message was that after 100bps of easing and an economy growing at 3% -- the Fed will be taking it slower to guard against the risk of undermining the inflation progress. The last few inflation reports seemed to have raised some alarm in the FOMC and Powell didn't try to explain the upside surprises as he has in the past a form of "catch-up" inflation. On the labor market front, he was clear that the risks have diminished and the cooling has been orderly. Putting all that together, the risk bias has shifted back towards price stability in a meaningful way and hawks, at least for now, rule the day in the committee.

What's interesting though, at least a few committee members were factoring in higher inflation readings in their inflation projections due to the proposed policies of the incoming administration. He played an even hand on whether a central banker should look through a price level rise or not given how anchored inflation expectations are, but we walk away from all this reminding ourselves that this dog's breakfast of a forecast is usually spoiled by the time its served. With wildly different assumptions about the economy, its either a coincidence that the FOMC had a unified position on 2025 or they, like everyone else, have no clue and just want to maintain a hawkish posture for the time being until they get some clarity.

Of course, that's the main reason Powell kept it fuzzy. At times being dovish, expressing confidence that inflation would come down and that policy remained meaningfully restrictive while not offering any clues about whether the committee would continue cutting rates in January. The reality is the Fed has to play a waiting game to see how the inflation data evolves (likely over several months) and also needs to know the sequencing and magnitude of Trump's policies. It's wise not to come down to hard on where they see policy with such huge unknowns on the horizon, and we see the merits in tactically positioning hawkish with inflation running modestly above target.

But we're not entirely convinced that there aren't headwinds facing the US economy that we don't already know. Population growth is downshifting, and possibly rapidly. The incoming President's twitter wars may very well be influencing the flows of people right now. Sure, population flows impact supply and demand, but those impacts don't always hit at the same time. And while inflation has surprised on the upside recently, it's happening while the labor market and wage growth have generally been cooling. So it's hard to believe that "stickiness" reflects demand-pressures that monetary policy can actually cure .

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