

May 5, 2022

# For the US Fed, 50 is the new 25



Yesterday evening, the Fed announced its biggest rate hike since 2000; a 50bp increase, bringing the target range to 0.75%-1% as it works to get US inflation under control. After a 25bp hike in March, the US central bank's policy-setting Federal Open Market Committee (FOMC) delivered its first back-to-back increase since 2006 and confirmed more increases "will be appropriate."

The 50bp hike was well expected by markets and since the bar for the Fed to surprise the market on the hawkish side was already set very high, the market reaction was positive for risky assets. Going into the meeting, some market participants and Fed member(s) deemed a 75bp hike necessary but Powell commented that a such a large increase was not something the FOMC was actively considering.

In an unusual move, Powell opened his news conference speaking to the American people:

"Inflation is much too high. And we understand the hardship that is causing," he said, promising to use all tools available to bring it down "expeditiously". He acknowledged that higher interest rates also bring their share of pain, but "everyone would be better off if we can get this job done. The sooner, the better." To achieve that aim, he said "additional 50-basis point increases should be on the table at the next couple of meetings, however, a more aggressive three-quarter point hike is not under consideration."

The FOMC also announced that quantitative tightening (QT) will begin on June 1<sup>st</sup>. This process involves allowing maturities to run off the Fed's balance sheet, subject to a monthly cap. The cap for the monthly reduction in holdings in US Treasuries will be set at USD 30bn for the first three months, before increasing to USD 60bn per month. For MBS (mortgage-backed securities) the cap will be set at USD 17.5bn per month, rising to USD 35bn after three months. So, once it reaches "cruising speed", the Fed will reduce its balance sheet by USD 95bn per month.

Powell emphasized that the US economy was strong, the labour market extremely tight and inflation too high. The FOMC acknowledged the "highly uncertain" impact of the conflict in Ukraine and sanctions on Russia which are "creating additional upward pressure on inflation and are likely to weigh on economic activity." In addition, it was commented that Covid lockdowns in China "are likely to exacerbate supply chain disruptions".

Following the announcement, the S&P 500 jumped 3%, bond yields came down slightly and the USD lost some terrain vs the euro and other majors, all signaling relief on the market that the Fed did not "over deliver".

The next FOMC meeting is planned for June 15<sup>th</sup>, at which another 50bp hike is expected.

## Disclaimer

All financial data and/or economic information released by this Publication (the "Publication"); (the "Data" or the "Financial data and/or economic information"), are provided for information purposes only, without warranty of any kind, including without limitation the warranties of merchantability, fitness for a particular purpose or warranties and non-infringement of any patent, intellectual property or proprietary rights of any party, and are not intended for trading purposes. Banque Internationale à Luxembourg SA (the "Bank") does not guarantee expressly or impliedly, the sequence, accuracy, adequacy, legality, completeness, reliability, usefulness or timeliness of any Data. All Financial data and/or economic information provided may be delayed or may contain errors or be incomplete. This disclaimer applies to both isolated and aggregate uses of the Data. All Data is provided on an "as is" basis. None of the Financial data and/or economic information contained on this Publication constitutes a solicitation, offer, opinion, or recommendation, a guarantee of results, nor a solicitation by the Bank of an offer to buy or sell any security, products and services mentioned into it or to make investments. Moreover, none of the Financial data and/or economic information contained on this Publication provides legal, tax accounting, financial or investment advice or services regarding the profitability or suitability of any security or investment. This Publication has not been prepared with the aim to take an investor's particular investment objectives, financial position or needs into account. It is up to the investor himself to consider whether the Data contained herein this Publication is appropriate to his needs, financial position and objectives or to seek professional independent advice before making an investment decision based upon the Data. No investment decision whatsoever may result from solely reading this document. In order to read and understand the Financial data and/or economic information included in this document, you will need to have knowledge and experience of financial markets. If this is not the case, please contact your relationship manager. This Publication is prepared by the Bank and is based on data available to the public and upon information from sources believed to be reliable and accurate, taken from stock exchanges and third parties. The Bank, including its parent, - subsidiary or affiliate entities, agents, directors, officers, employees, representatives or suppliers, shall not, directly or indirectly, be liable, in any way, for any: inaccuracies or errors in or omissions from the Financial data and/or economic information, including but not limited to financial data regardless of the cause of such or for any investment decision made, action taken, or action not taken of whatever nature in reliance upon any Data provided herein, nor for any loss or damage, direct or indirect, special or consequential, arising from any use of this Publication or of its content. This Publication is only valid at the moment of its editing, unless otherwise specified. All Financial data and/or economic information contained herein can also quickly become out-of-date. All Data is subject to change without notice and may not be incorporated in any new version of this Publication. The Bank has no obligation to update this Publication upon the availability of new data, the occurrence of new events and/or other evolutions. Before making an investment decision, the investor must read carefully the terms and conditions of the documentation relating to the specific products or services. Past performance is no guarantee of future performance. Products or services described in this Publication may not be available in all countries and may be subject to restrictions in some persons or in some countries. No part of this Publication may be reproduced, distributed, modified, linked to or used for any public or commercial purpose without the prior written consent of the Bank. In any case, all Financial data and/or economic information provided on this Publication are not intended for use by, or distribution to, any person or entity in any jurisdiction or country where such use or distribution would be contrary to law and/or regulation. If you have obtained this Publication from a source other than the Bank website, be aware that electronic documentation can be altered subsequent to original distribution.

As economic conditions are subject to change, the information and opinions presented in this outlook are current only as of the date indicated in the matrix or the publication date. This publication is based on data available to the public and upon information that is considered as reliable. Even if particular attention has been paid to its content, no guarantee, warranty or representation is given to the accuracy or completeness thereof. Banque Internationale à Luxembourg cannot be held liable or responsible with respect to the information expressed herein. This document has been prepared only for information purposes and does not constitute an offer or invitation to make investments. It is up to investors themselves to consider whether the information contained herein is appropriate to their needs and objectives or to seek advice before making an investment decision based upon this information. Banque Internationale à Luxembourg accepts no liability whatsoever for any investment decisions of whatever nature by the user of this publication, which are in any way based on this publication, nor for any loss or damage arising from any use of this publication or its content. This publication, prepared by Banque Internationale à Luxembourg (BIL), may not be copied or duplicated in any form whatsoever or redistributed without the prior written consent of BIL 69, route d'Esch | L-2953 Luxembourg | RCS Luxembourg B-6307 | Tel. +352 4590 6699 | [www.bil.com](http://www.bil.com).