Chart of the Month

October 2022

The Federal Open Market Committee (FOMC) is the monetary policymaking body of the Federal Reserve System. The committee makes key decisions about interest rates and the growth of the money supply. The FOMC is composed of 12 members, including the seven Board of Governors of the Federal Reserve System and five Federal Reserve Bank presidents. Governors are appointed by the president of the United States and confirmed by the Senate for staggered 14-year terms.

Jerome Powell, a former attorney and investment banker, is the only member of the Federal Reserve who has worked in the private sector. All of the other members have spent their careers inside the Federal Reserve system, academia, and/or a brief stint at a consulting firm in one case.

The lack of "real world" experience is troubling. These central planners have little to no practical knowledge, yet they are responsible for creating "stable prices" and "maximum employment," the dual mandate imposed by Congress in 1977.

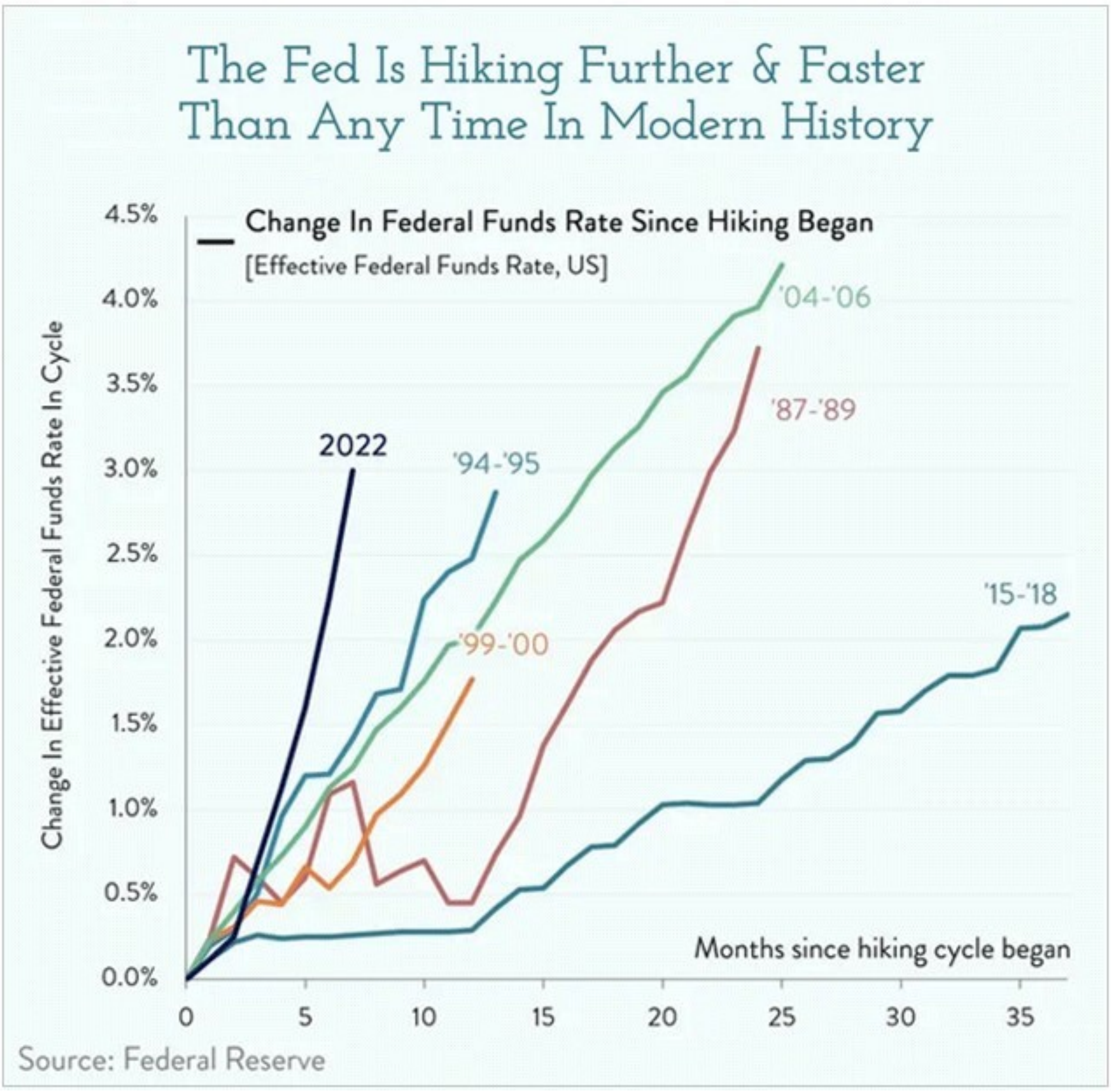
While the Fed did a masterful job in helping lift the economy out of the short-lived, pandemic-induced recession in 2020, the central bank kept the "pedal to the metal" with its ultra-easy monetary policy throughout 2021 and even early 2022 despite rising inflation and an economy no longer in need of support. Powell, in fact, wrongly dubbed inflation as "transitory" a year ago April before describing it as "more persistent" last November, all the while maintaining interest rates at 0% until March 2022.

Had the Fed tackled inflation 18 months ago as it should have by reversing its highly accommodative policy, the general increase in prices would have begun to subside, negating the need to "slam on the brakes" by hiking the funds rate further and faster than any time in modern history (see below). Instead, the Fed fell way behind the curve and has been playing catch up in an ever-increasing manner since last spring.

With officials talking in unison about raising rates an additional 1.25% this year and to a range of 4.50-4.75% next year, the danger is that the Fed parrots will make a second mistake this cycle by tightening too much and sending the economy into a recession.

The Fed's hawkish actions and words caused nearly record pessimism and bearishness as of the end of September, suggesting, from a contrarian viewpoint, that a stock and bond rally off the lows could be in the offing in October. The sustainability, however, will be dictated by the jobs reports this week, followed by the CPI report next week, corporate earnings beyond that, and the next Fed meeting on November 2.

Trick or treat?



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