RBC Global Asset Management

Thoughts on the May 4th FOMC Meeting

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- The US Federal Open Market Committee (FOMC) delivered a 50 basis point (bp) rate hike on May 4th, in line with expectations. Despite market concerns, no official argued for a 75bp hike and Federal Reserve Chairman Jerome Powell indicated that 75bp is not being considered going forward, something that helped to push stock prices higher during the press conference. Instead, he pointed to the fact that 50bp hikes are on the table for the next couple of meetings and further hikes are expected to follow.
- The initial press statement did not contain any major surprises. Both doves and hawks got something from the release. Doves could point out balance sheet reduction starting at a maximum of $47.5bn per month before ramping up to $95bn over the coming months, a lower starting point than some investors expected. Hawks could focus on language referring to inflationary disruptions caused by COVID-related lockdowns in China and a new reference to the committee being "highly attentive to inflation risks".
- During the press conference, Chair Powell again pushed back against recessionary fears, highlighting the strength of the US economy and, especially, of the US labor market. We agree, seeing only 30% recession risk before YE23.
- Interestingly, unlike some other Fed speakers, Chair Powell suggested that hiking rates into restrictive territory (i.e. past the "neutral rate") is not a given in this cycle. It's a possibility, however, not a certainty, in his opinion.
- We expect the Fed to continue hiking aggressively over the course of the upcoming meetings in order to reassure the market of its desire and ability to combat inflation. We do think, however, that the Fed might stop hiking earlier than current market pricing would indicate. With balance sheet reduction and a stronger US dollar contributing to the goal of tighter financial conditions, fewer hikes than expected might do the job.

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