FOMC Update – March, 2022

By: Steve Brown, President & CEO of PCBB

The FOMC raised its benchmark interest rate by 0.25% for the first time since December 2018 and is prepared to adjust rates as needed. St Louis Fed President James Bullard dissented in favor of a 0.50% increase, the first vote against a decision since September 2020. The Fed signaled further balance sheet reductions "at a coming meeting," keeping the timeframe open. Fed officials are forecasting 7 rate hikes through the end of 2022. Inflation remains elevated with geopolitical headwinds, particularly the invasion of Ukraine by Russia, expected to create uncertainty and additional inflationary pressures.

Rates and Market:

- Fed Funds Target: 0.25% – 0.50%
- Market Reaction: Short term maturities (2Y – 5Y notes) much more responsive than the long end; 10Y Treasuries are up 3bps after the announcement

The FOMC announced the following actions and analysis:

- 8-1 vote
- The economy has begun to strengthen with strong employment and solid job gains
- Supply/Demand imbalance contributing to elevated inflation
- Risks to the economic outlook remain, particularly the invasion of Ukraine by Russia

The Statement:

Indicators of economic activity and employment have continued to strengthen. Job gains have been strong in recent months, and the unemployment rate has declined substantially. Inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher energy prices, and broader price pressures.

The invasion of Ukraine by Russia is causing tremendous human and economic hardship. The implications for the U.S. economy are highly uncertain, but in the near term the invasion and related events are likely to create additional upward pressure on inflation and weigh on economic activity.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. With appropriate firming in the stance of monetary policy, the Committee expects inflation to return to its 2 percent objective and the labor market to remain strong. In support of these goals, the Committee decided to raise the target range for the federal funds rate to 1/4 to 1/2 percent and anticipates that ongoing increases in the target range will be appropriate. In addition, the Committee expects to begin reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities at a coming meeting.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on public health, labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Michelle W. Bowman; Lael Brainard; Esther L. George; Patrick Harker; Loretta J. Mester; and Christopher J. Waller. Voting against this action was James Bullard, who preferred at this meeting to raise the target range for the federal funds rate by 0.5 percentage point to 1/2 to 3/4 percent. Patrick Harker voted as an alternate member at this meeting.

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About Steve Brown:

Steve has over 30 years of banking and capital markets experience, is frequently quoted in the press on banking issues and trends and is a regular speaker at industry conferences. He is also the author of the popular Banc Investment Daily, distributed to over 75,000 community bankers and regulators nationwide. Steve joined PCBB in 2002, where he was CEO of its broker dealer subsidiary and later became President/CEO of PCBB in 2007. Prior to joining PCBB, Steve was cofounder of a financial technology (fintech) company; ran a sales group at Bank of America Securities focused on community banks; and was on the sales team at the world’s largest wholesale broker of federal funds, interest rate hedging and foreign exchange. Steve began his banking career in the finance and treasury departments of a large community bank in Arizona in the mid-1980’s.