The Biggest Market Dislocation I've Ever Seen

It's been a volatile last few weeks, to say the least, but nothing we hadn't expected.

There was CPI, Powell Testifying on Capitol Hill, and the up coming FOMC meeting creating a still to be completed 3-week stretch of catalytic events. (4 if you want to tack on PCE March 31st)

The market is off to a volatile but strong start to the year after a miserable year for long-only investors fighting the fed. The most recent bear market rally peaked on February 2nd, the day after the market misinterpreted the first FOMC meeting as "dovish."

That fight against the fed has seemingly never been stronger in recent history than it is right now.

The fed funds futures market implies the market is at a roughly 50-50 split on wether the fed is going to hike 25 bps at its next meeting or pause.

Meanwhile, the ECB just hiked 50 and the White House today said they had confidence in Powell. His path has been very clear.
However, the mismatch isn't just with the upcoming FOMC meeting rate hike. This FOMC meeting is unlike the last one.

The fed is going to release a dot plot showing projected rates for year end 2023, 2024, and 2025, as well as a long term fed funds rate.

With a 2-year currently sitting below 4%, it would have to take a seriously meaningful drop from the last dot plot to justify it's current market pricing.

Based on how Powell faced an onslaught of attacks and held his hawkish ground, I expect this dot plot will not be revised down, but be revised up in the hawkish direction.

As the saying goes, "don't fight the Fed.”

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate