

# US Macroeconomics

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## What Will Powell Say?

Chair Powell speaks on the economic outlook and the state of the labor market at a Brookings Institution event this Wednesday at 1:30 pm EST. There will be Q&A following his prepared remarks. It is noteworthy that Powell will not have the results of the November employment situation until Thursday evening. What will he say? **Due to the dramatic easing of financial conditions since the November 3rd FOMC meeting, Powell will reinforce the hawkish remarks he made at his last month press conference.**

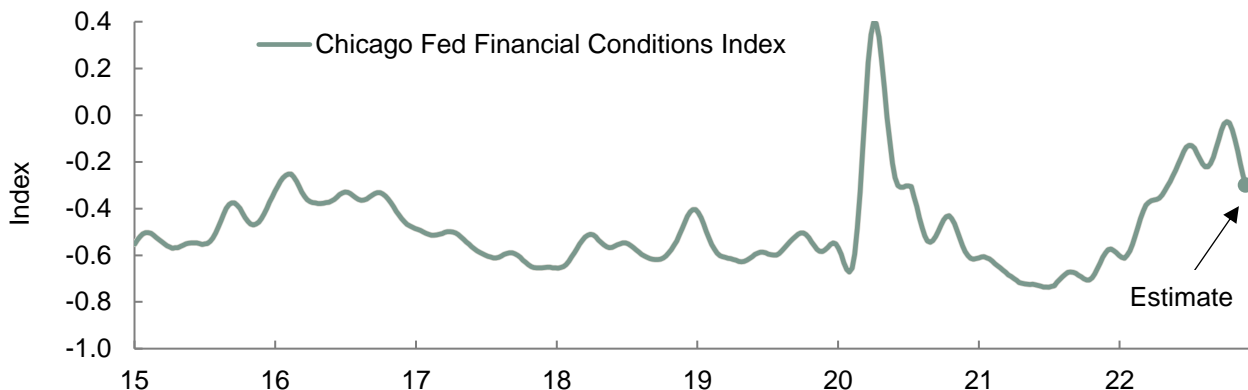
In the roughly four weeks since the November Fed meeting, **the S&P 500 is up around 7%**. This is more than the 5% gain in stocks from mid-June to mid-July which eventually gave way to a 17% rally. In the last several weeks, **the trade-weighted dollar is down over 6%** which is a substantial move in such a short period. Lastly and most importantly, **the yield on the 10-year treasury note is down 54 basis points** from this month's high. In turn, mortgage rates are back below 7%.

One way to visualize this amalgamation of various easing is through the Chicago Fed's financial conditions index which is illustrated in the chart below. Financial conditions tighten when the series is rising, as it did for most of the period from July 2021 to October 2022 with this past June to August being the notable exception. Financial conditions ease when the series is falling as it is now.

In the last couple of years, financial conditions have been dominated by interest rates so the recent and sharp fall in 10-year treasury yields means that conditions likely eased substantially further last week. **Our best guess is that the current index level is -0.30, which is the lowest reading since May 6 or when the fed funds rate was 300 basis points lower at just 1.0%**. Incredible!

Earlier this month, Powell said "It is very premature...to think about or be talking about pausing our rate hikes. We have a ways to go." Regarding the jobs market, he said that he "doesn't see the case for a real softening just yet." Consequently, this should lead Powell to repeat that "the ultimate level of interest rates will be higher than previously expected." While this would be a bearish commentary for risk assets, we wonder whether investors will continue to look past these remarks. Stay tuned.

**Financial conditions have been easing at a faster pace than this past summer**



Sources: FRB Chicago, Haver, SMBC

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