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Powell on Capitol Hill

President Trump is railing at Federal Reserve Chair Jerome Powell, but Congress seems mostly satisfied with him. The big takeaway from Powell’s testimony last week before Senate and House financial committees is that most members of the Federal Open Market Committee (FOMC) feel an easing in the federal funds rate is appropriate—Fedspeak for the markets should expect one in the July FOMC meeting unless upcoming data shifts significantly (the meeting announcement is still two weeks away). The markets expect a 25-basis-point cut to such a degree that if the Fed doesn’t move, there likely will be formidable volatility.

One of the best lines from Powell’s testimony was his response to a lawmaker saying that the labor market is now hot enough to put upward pressure on inflation: “To call something hot, you need to see some heat,” he said. Economists traditionally expect that a strong employment situation leads to wage growth, but that has not been the case recently.

The short end of the London interbank offered rate curve (Libor) was nearly unchanged last week, with the 1-month rate dropping to 2.33%, the 3-month slipping to 2.30% and the 6-month remaining at 2.21%.