Trend Macrolytics, LLC
Donald Luskin, Chief Investment Officer
Thomas Demas, Managing Director
Michael Warren, Energy Strategist

FED SHADOW

An Open Letter to Jerome Powell

Tuesday, June 14, 2022

Donald Luskin

Dear Mr. Chair ~~Pro Tempore~~,

At the prior FOMC meeting on May 4, you told reporters in the post-meeting press conference that 75 bp rate hikes had not been discussed as a policy option.

At the time of that meeting, the information available to you was:

- the March Consumer Price Index at 8.54% year over year, and 11.27% 3-months annualized;
- March Core CPI at 6.47% year over year;
- the 5-year TIPS inflation breakeven spread at 3.24%;
- and the University of Michigan survey of 1-year inflation expectations at 5.4%.

Now, following last Friday's release of May Consumer Price Index data, markets are pricing in the strong probability of a 75 bp hike to the federal funds rate at tomorrow's FOMC meeting, and a number of Wall Street firms have made this their forecast. One is even calling for 100 bp.

Presently the information available to you is:

- the May Consumer Price Index at 8.58% year over year, just 4 bp higher than at the prior FOMC meeting, and 10.67% 3-months annualized, 60 bp lower than at the prior meeting;
- May Core CPI at 6.02% year over year, 45 bp lower than at the prior meeting;
- the 5-year TIPS inflation breakeven spread at 3.07%, 17 bp lower than at the prior meeting;
- and the University of Michigan survey of 1-year inflation expectations at 5.4%, unchanged from the prior meeting.

Perhaps you have observed that markets have been quite turbulent the last several days. Do you think that could be because markets fear the FOMC will steepen and accelerate the path of policy normalization to the point of causing a recession in order to combat worsening inflation, when in reality the inflation outlook has generally improved?

Asking for a friend,

Donald L. Luskin
Chief Investment Officer