Economic and Market Commentary – May 2022

At the beginning of May, monetary policymakers at the Fed raised the federal funds rate (FFR) by 50 basis points, pushing the target range to 0.75%-1.00%. Markets rallied on the news because Fed Chair Jerome Powell took the potential for a 75-basis-points hike off the table at the post-meeting press conference. Month-over-month, the yield on the 2-year US Treasury note fell 15 basis points to end May at 2.56%. The yield on the benchmark 10-year Treasury fell nine basis points to 2.84%.

The unemployment rate was 3.6% in April and firms added 428,000 net, new jobs to nonfarm payrolls over the month, as the labor market remains strong. Inflation data for April released in May showed that headline readings may have peaked, coming down slightly on a year-over-year basis from 8.6% to 8.2%. However, Core (ex. food and energy) readings are likely to remain well above the Fed's 2% target due to the rising cost of shelter. Additionally, a record-tight labor market will make the Fed's job of delivering a soft landing more challenging as continued gains in employment and wages will bolster demand. Mortgage rates are up over two percentage points since the start of the year, which has caused the pace of home sales to slow and housing inventory to jump. If new home construction starts to falter, we could see members of the Federal Open Market Committee (FOMC) opt to pause rate hikes in the fall.

After delivering a well-telegraphed 50-basis-points hike at the early May meeting, many members of the FOMC offered their expectations about how monetary policy would develop in the coming months. While additional 50-basis-points hikes at the June and July meetings are expected, there is a wide range of expectations regarding the appropriate policy after that. St. Louis Fed President James Bullard has said he would like to see half-point rate rises at every meeting this year. Meanwhile, Atlanta Fed President Raphael Bostic has called for a pause in rate rises in September to assess the situation. The one common thread is a desire to see sustained declines in inflation gauges.