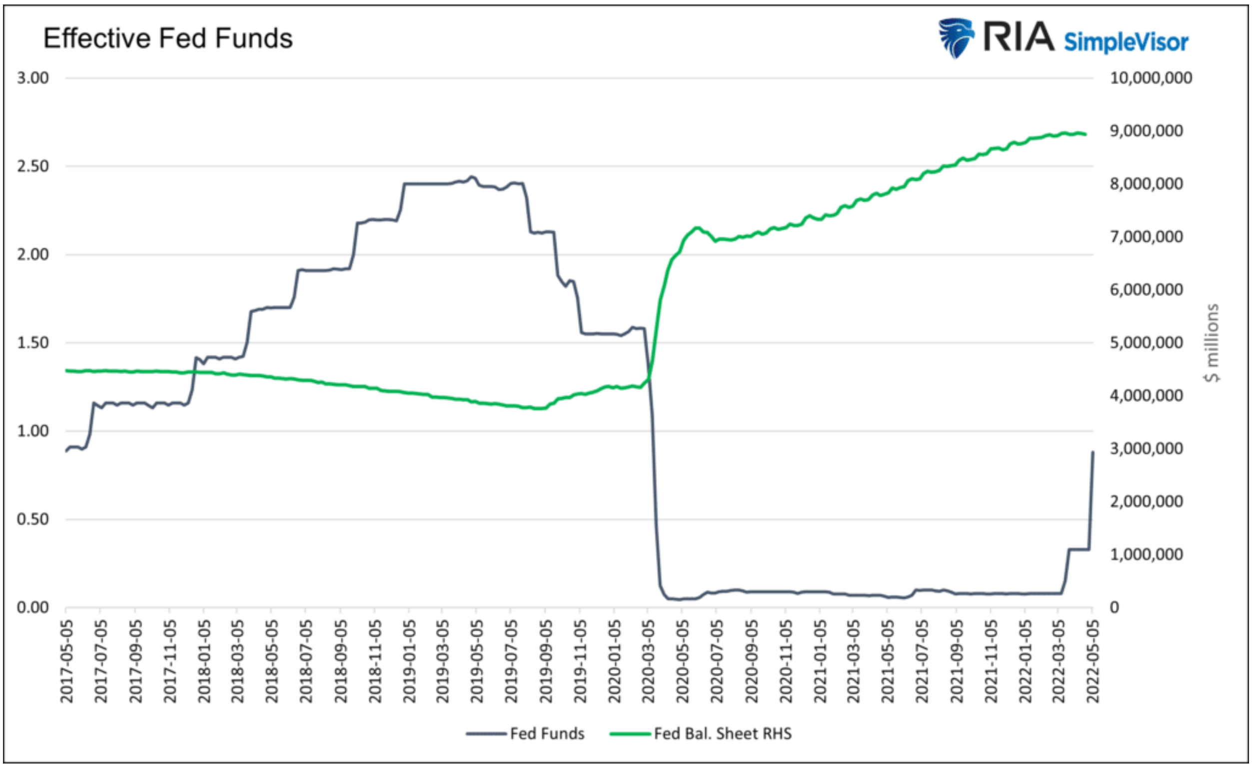
RIA Advice

Meeting market expectations, the Fed raised rates by 50bps and will start Quantitative Tightening (QT) in June. 50bps is notable as it has been 22 years since the Fed hiked rates by more than 25bps at one meeting. Beyond the 50bps, the Fed will reduce its balance sheet via QT. While the Fed has done QE four times, they only tried QT once. The prior QT experience in 2018 ended before it met its goals. The reduction of liquidity weighed on financial stability. We suspect QT will have a limited shelf life this time for similar reasons. With 50bps and QT in the books, we can look ahead to the June meeting. As we share in a paragraph below, the market expects a 75bps increase in rates. The graph below shows the long road ahead for the Fed to normalize policy.



What To Watch Today

Economy

- 8:30 a.m. ET: **Housing starts**, January (1.695 million expected, 1.702 million in December)
- 8:30 a.m. ET: **Housing starts**, month-over-month, January (-0.4% expected, 1.4% in December)
- 8:30 a.m. ET: **Building permits**, January (1.750 million expected, 1.873 million in December, upwardly revised to 1.885 million)

- 8:30 a.m. ET: **Building permits**, month-over-month, January (-7.2% expected, 9.1% in December, upwardly revised to 9.8%)
- 8:30 a.m. ET: **Initial jobless claims**, week ended Feb. 12 (218,000 expected, 223,000 during prior week)
- 8:30 a.m. ET: **Continuing claims**, week ended Feb. 5 (1.605 million during prior week)
- 8:30 a.m. ET: **Philadelphia Fed Business Outlook Index**, February (20.0 expected, 23.2 in January)

Earnings

Pre-market

- **Walmart** (WMT) to report adjusted earnings of $1.51 on revenue of $151.68 billion
- **US Foods** (USFD) to report adjusted earnings of $0.40 on revenue of $7.64 billion
- **Palantir Technologies** (PLTR) to report adjusted earnings of $0.03 on revenue of $419.33 million
- **AutoNation** (AN) to report adjusted earnings of $5.00 on revenue of $6.37 billion

?Post-market

- **Shake Shack** (SHAK) to report an adjusted loss of $0.17 on revenue of $202.60 million
- **Roku** (ROKU) to report adjusted earnings of $0.04 on revenue of $893.13 million
- **Dropbox** (DBX) to report adjusted earnings of $0.37 on revenue of $558.33 billion

Market Trading Update - No Surprise As Fed Meets Expectations

As we suggested over the past couple of days, with the markets deeply oversold, sentiment extremely negative and investor positioning light, if the Fed met expectations, and provided some dovish commentary, the markets could rally very sharply. Such was the case as the Fed confirmed they were NOT considering any 0.75% rate increases. With that, the market screamed higher.

Our initial target for the rally is the 50% Fibonacci retracement line which will likely coincide with both the 50-dma and the downtrend line from the January highs. We continue to suggest using that level to rebalance portfolios and reduce risk. Going forward we still face numerous headwinds that could limit upside to the markets advance.

The Federal Reserve Is Walking the Line

In addition to the expected 50bps rate hike and QT starting in June, the redlined statement below shows how the FOMC policy statement changed from the last meeting in mid-March. The differences help us hone in on how their views might be changing. The biggest takeaway we find is that their views are not really changing. The Fed really left no surprises for the markets. They remain hawkish but are not becoming more hawkish. At the same time, they are not harping on economic weakening or bringing up a few data points showing inflation may be peaking. It appears the Fed is letting the stock and bond markets do the heavy lifting for them. To do so, they must retain control of the narrative and, in the words of Johnny Cash, they must walk the hawkish/dovish line carefully.

For release at 2 p.m. EDT May 4~~March 16~~, 2022

Although overall ~~Indicators of~~ economic activity edged down in the first quarter, household spending and business fixed investment remained strong ~~employment have continued to strengthen.~~ Job gains have been robust~~strong~~ in recent months, and the unemployment rate has declined substantially. Inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher energy prices, and broader price pressures.

The invasion of Ukraine by Russia is causing tremendous human and economic hardship. The implications for the U.S. economy are highly uncertain. The~~, but in the near term the~~ invasion and related events are creating~~likely to create~~ additional upward pressure on inflation and are likely to weigh on economic activity. In addition, COVID-related lockdowns in China are likely to exacerbate supply chain disruptions. The Committee is highly attentive to inflation risks.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. With appropriate firming in the stance of monetary policy, the Committee expects inflation to return to its 2 percent objective and the labor market to remain strong. In support of these goals, the Committee decided to raise the target range for the federal funds rate to 3~~1~~/4 to 1~~/2~~ percent and anticipates that ongoing increases in the target range will be appropriate. In addition, the Committee decided~~expects~~ to begin reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities on June 1, as described in the Plans for Reducing the Size of the Federal Reserve's Balance Sheet that were issued in conjunction with this statement. ~~at a coming meeting.~~

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on public health, labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Michelle W. Bowman; Lael Brainard; James Bullard; Esther L. George; Patrick Harker; Loretta J. Mester; and Christopher J. Waller. ~~Voting against this action was James Bullard, who preferred at this meeting to raise the target range for the federal funds rate by 0.5 percentage point to 1/2 to 3/4 percent.~~ Patrick Harker voted as an alternate member at this meeting.

ADP Labor Report

The ADP jobs report, while robust, is starting to show weakness in the labor markets. It said the economy added 247k jobs last month. That was well below expectations for +390k jobs. As shown in the first graph below, 247k is the lowest monthly job growth in over a year. More troubling are some of the data buried within the report. Specifically, the second graph shows that small businesses employing less than 50 people lost 121k jobs over the month. Higher interest rates and inflation are much more challenging environments for small and midsized companies than larger ones. While small businesses shed jobs, the largest companies employing more than 1,000 employees added 289k jobs. This data adds to other evidence that economic deterioration is likely to appear in the small business sectors.

As you might recall, we shared the following quote from the NFIB- Small Business Optimism Index a week or so ago:

*"Owners expecting better business conditions over the next six months decreased 14 points to a net negative 49%, **the lowest level recorded in the 48-year-old survey**."*

Chart 1. Change in Total Nonfarm Private Employment

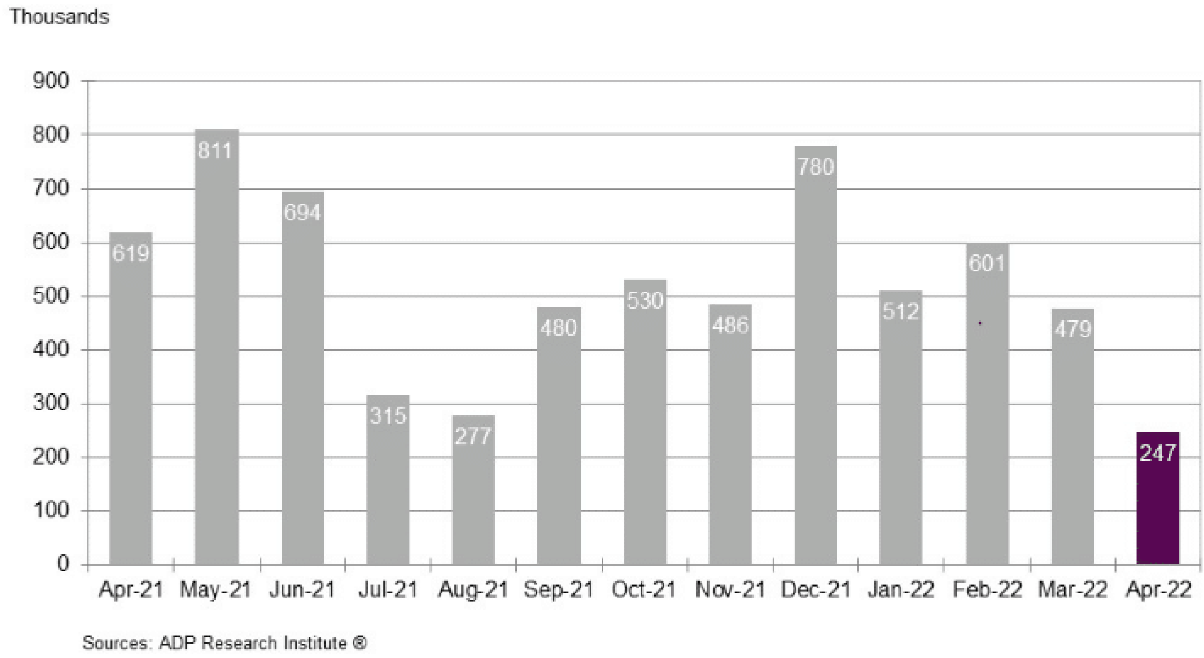
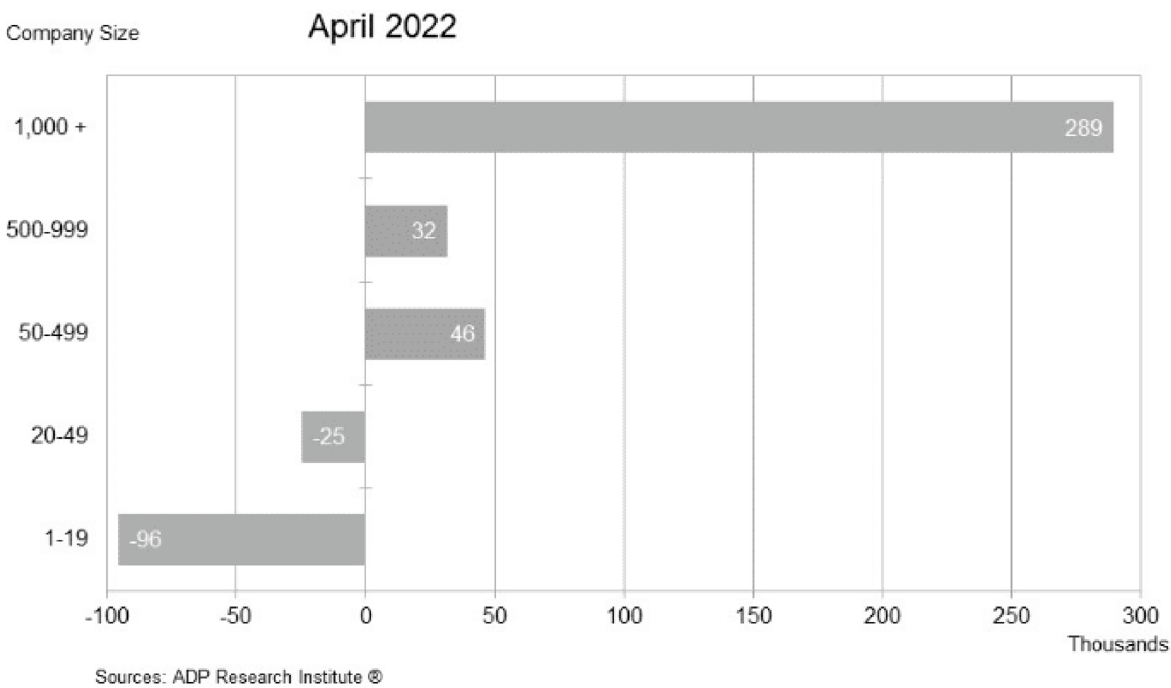


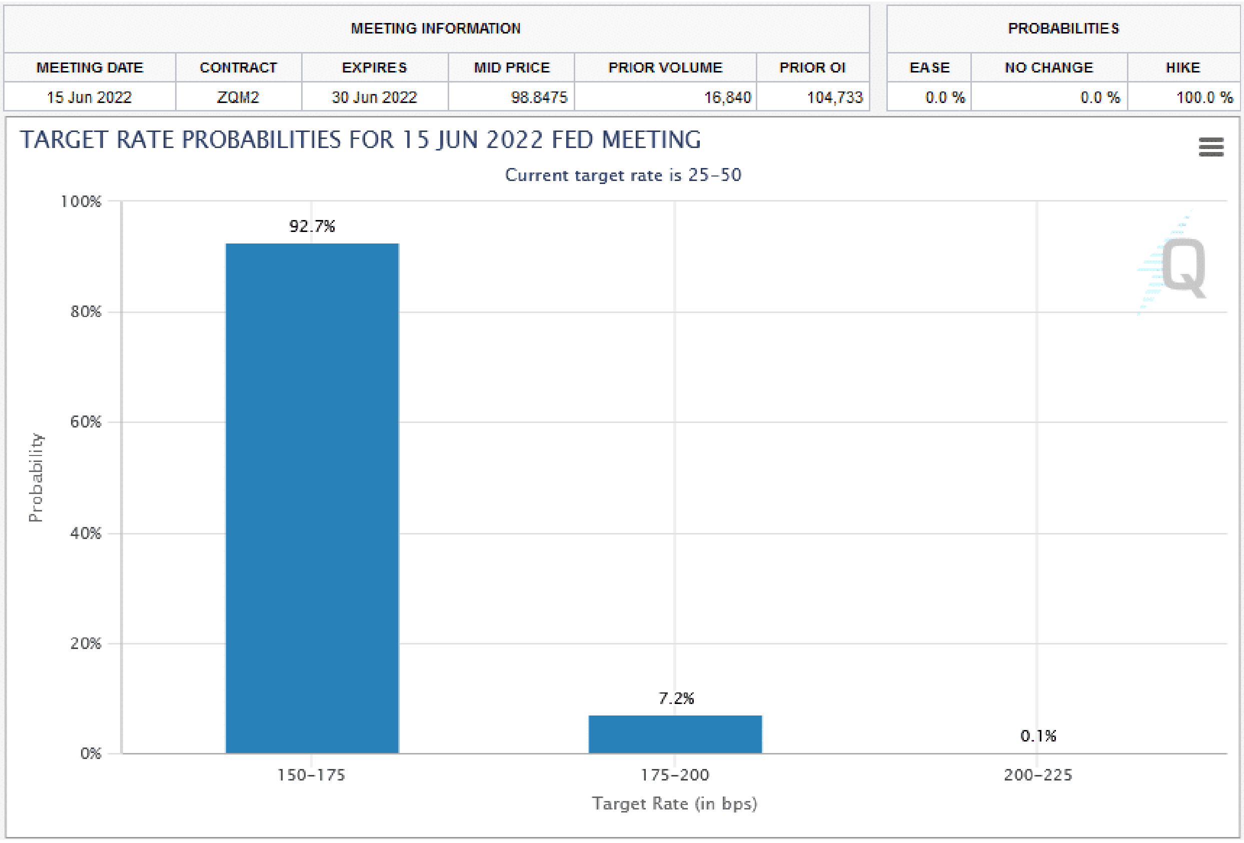
Chart 4. Change in Nonfarm Private Employment by Company Size



Note: All size data included in the ADP National Employment Report is based on size of business, defined as an entity with a unique Employer Identification Number, which may include multiple establishments.
Sum of components may not equal total due to rounding.

Did The Fed Change Market Expectations?

To help answer the question, we share the graph below. The 92.7% probability of the Fed Fund rates increasing to 1.50%-1.75% at the June meeting is based on Fed Funds futures trading on the Wednesday morning before the Fed's announcement. Today the Fed raised the Fed funds rate to .75%-1.00%. As such, the market, before the Fed meeting yesterday, largely expected the Fed to hike by 75 basis points at the June meeting. We will revisit the graph below in a few days to view if the Fed shifted investor expectations about the upcoming meeting. For access to this graph and others, visit the CME Group.



MEETING INFORMATION						PROBABILITIES		
MEETING DATE	CONTRACT	EXPIRES	MID PRICE	PRIOR VOLUME	PRIOR OI	EASE	NO CHANGE	HIKE
15 Jun 2022	ZQM2	30 Jun 2022	98.8475	16,840	104,733	0.0 %	0.0 %	100.0 %

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