

Pause and Pivot or Full Steam Ahead?

Yesterday's FOMC meeting was likely one of the toughest for the Fed in a long time. As we have written numerous times, the Fed must carefully balance fighting inflation with rising financial instability. Before the meeting, Fed Funds Futures were implying a 40% chance of one more 25bps rate increase at the May or June meeting, a pause until July, and a pivot toward 4.00% by year-end.

As expected, the Fed raised rates by 25bps to 4.75-5.00% and kept QE at \$95 billion monthly. Per the Fed's "dot plot" projections, they agree with the market, forecasting a pause in hikes after one more increase, however, they do not forecast a pivot. The culprit for the pause but no pivot is an increase in PCE inflation expectations from 3.1% to 3.3%, but its GDP forecast fell slightly while the expected unemployment rate rose slightly. Other than a new paragraph we share in Tighter Lending Standards below (regarding the banking system), the statement from the last meeting was left largely intact. The redlined FOMC statement can be found [HERE](#).

Percent

Variable	Median ¹				Central Tendency ²				Range ³			
	2023	2024	2025	Longer run	2023	2024	2025	Longer run	2023	2024	2025	Longer run
Change in real GDP	0.4	1.2	1.9	1.8	0.0-0.8	1.0-1.5	1.7-2.1	1.7-2.0	-0.2-1.3	0.3-2.0	1.5-2.2	1.6-2.5
December projection	0.5	1.6	1.8	1.8	0.4-1.0	1.3-2.0	1.6-2.0	1.7-2.0	-0.5-1.0	0.5-2.4	1.4-2.3	1.6-2.5
Unemployment rate	4.5	4.6	4.6	4.0	4.0-4.7	4.3-4.9	4.3-4.8	3.8-4.3	3.9-4.8	4.0-5.2	3.8-4.9	3.5-4.7
December projection	4.6	4.6	4.5	4.0	4.4-4.7	4.3-4.8	4.0-4.7	3.8-4.3	4.0-5.3	4.0-5.0	3.8-4.8	3.5-4.8
PCE inflation	3.3	2.5	2.1	2.0	3.0-3.8	2.2-2.8	2.0-2.2	2.0	2.8-4.1	2.0-3.5	2.0-3.0	2.0
December projection	3.1	2.5	2.1	2.0	2.9-3.5	2.3-2.7	2.0-2.2	2.0	2.6-4.1	2.2-3.5	2.0-3.0	2.0
Core PCE inflation ⁴	3.6	2.6	2.1		3.5-3.9	2.3-2.8	2.0-2.2		3.5-4.1	2.1-3.1	2.0-3.0	
December projection	3.5	2.5	2.1		3.2-3.7	2.3-2.7	2.0-2.2		3.0-3.8	2.2-3.0	2.0-3.0	
Memo: Projected appropriate policy path												
Federal funds rate	5.1	4.3	3.1	2.5	5.1-5.6	3.9-5.1	2.9-3.9	2.4-2.6	4.9-5.9	3.4-5.6	2.4-5.6	2.3-3.6
December projection	5.1	4.1	3.1	2.5	5.1-5.4	3.9-4.9	2.6-3.9	2.3-2.5	4.9-5.6	3.1-5.6	2.4-5.6	2.3-3.3

What To Watch Today

Economy

Time	Event	Impact	Actual	Dev	Consensus	Previous
THURSDAY, MARCH 23						
12:30	USD Chicago Fed National Activity Index (Feb)		-	-	0	0.23
12:30	USD Continuing Jobless Claims(Mar 10)		-	-	1.701M	1.684M
12:30	USD Current Account(Q4)		-	-	-\$231.2B	-\$217.1B
12:30	USD Initial Jobless Claims(Mar 17)		-	-	201K	192K
12:30	USD Initial Jobless Claims 4-week average(Mar 17)		-	-	-	196.5K
14:00	USD New Home Sales (MoM)(Feb)		-	-	0.65M	0.67M
14:00	USD New Home Sales Change (MoM)(Feb)		-	-	1.6%	7.2%
14:30	USD EIA Natural Gas Storage Change(Mar 17)		-	-	-	-58B
15:00	USD Kansas Fed Manufacturing Activity(Mar)		-	-	-6	-9
15:30	USD 4-Week Bill Auction		-	-	-	4.22%
17:00	USD 10-year TIPS Auction		-	-	-	1.22%

Earnings

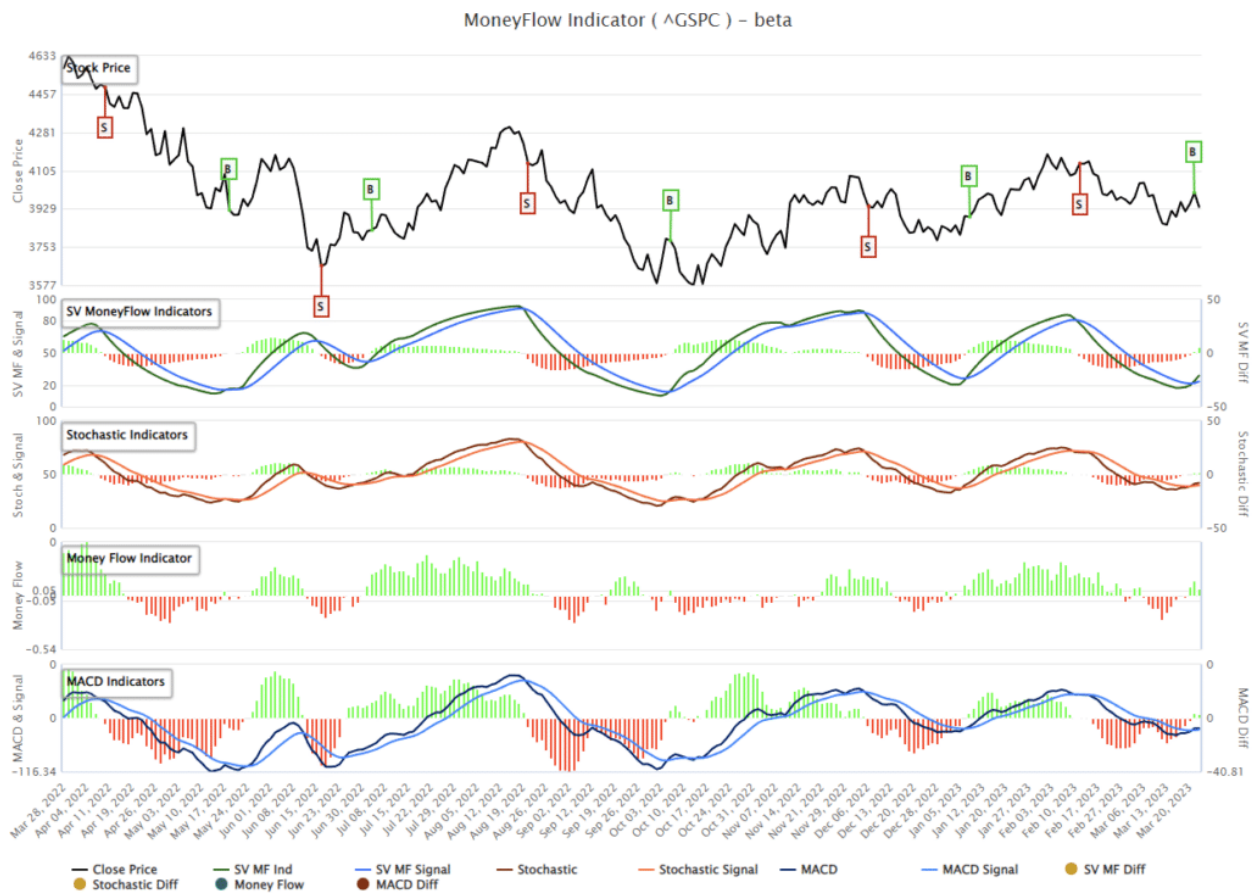
	Company	Time	Estimate		Growth	Surprise
				<input checked="" type="checkbox"/>	Show only confirmed?	
✓	ACN Accenture Ltd.	6:45 AM ET	\$2.49	\$15.60 B	3.7%	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
✓	GIS General Mills, Inc.	7:00 AM ET	\$0.91	\$4.94 B	8.9%	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
✓	DRI Darden Restaurants, ...	7:00 AM ET	\$2.24	\$2.73 B	11.5%	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
✓	CMC Commercial Metals C...	6:45 AM ET	\$1.53	\$1.99 B	-0.9%	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
✓	DOOO BRP Inc.	6:00 AM ET	\$2.75	\$2.23 B	20.7%	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>

Market Trading Update

As noted, the Fed hiked rates yesterday and reiterated its inflation-fighting stance. While the market initially took the rate hike as bullish and rallied, the concerns over further tightening, either from Fed rate hikes or tighter lending standards from the banks, led to a sell-off into the close.

As discussed yesterday, with "buy signals" in place, we need to add some equity exposure cautiously. In this regard, we did add two index trading positions with a tight stop at the 200-DMA. We were aggressively underweight equities going into the Fed meeting and the whole banking crisis and remain that way still.

However, as noted, with buy signals in place, as shown, history suggests a potential short-term trading opportunity. The signal is not always 100% accurate, but more often than not provides a decent trading signal. If it fails, we will close out the trading positions quickly.



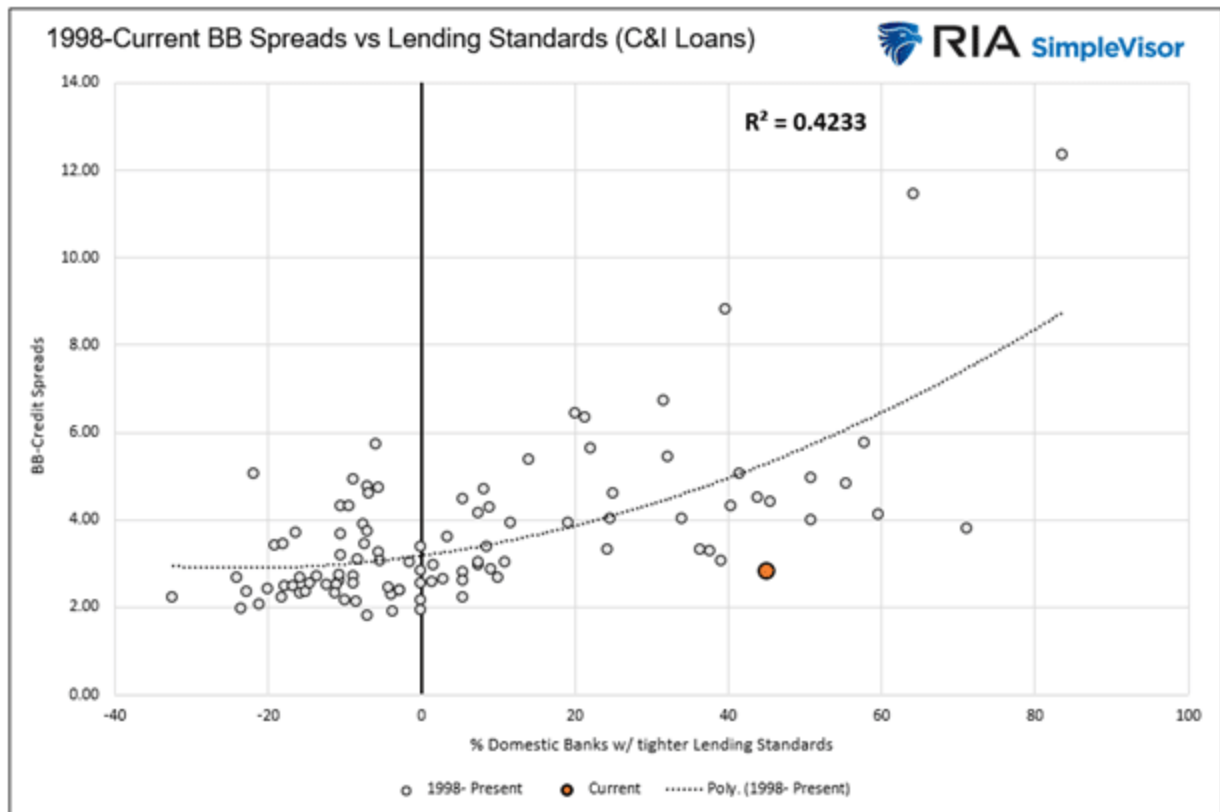
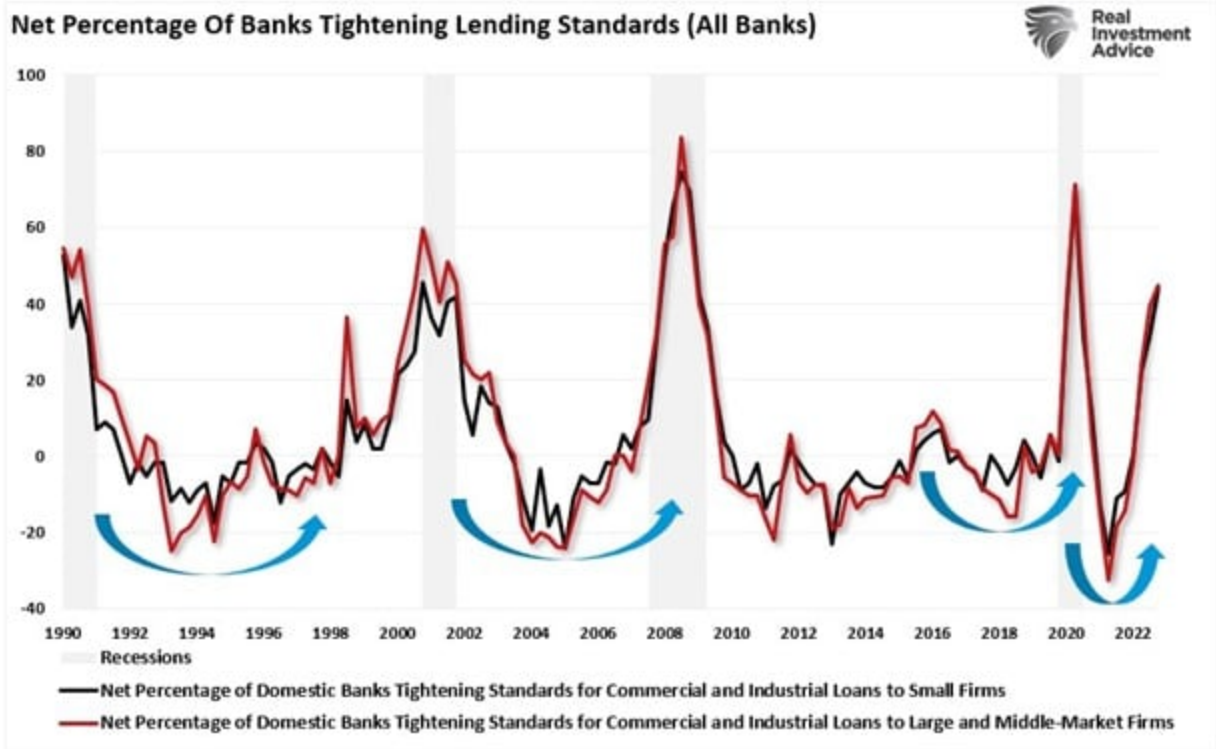
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Tighter Lending Standards

In recent commentary and articles, we have discussed how banks must fortify their balance sheets to offset declining deposits. As a result, they will tighten lending standards. Tighter standards will result in fewer loans and higher interest rates for those created. Banks are replacing lost deposits with the new BTFP facility or receiving deposits from larger banks. In either case, those deposits come at interest rates commensurate with current short-term Treasury rates. Given they lost funding at zero percent (consumer deposits) and are replacing it with 4.50+% funding, their net interest margins will shrink considerably. To help offset the margin compression, banks will raise the rates they charge on loans. The two graphs below show that tightening lending standards always lead to recessions and higher yield spreads.

Yesterday's FOMC meeting seems to confirm our logic. Per the newly added paragraph in their statement:

*The U.S. banking system is sound & resilient. **Recent developments are likely to result in tighter credit conditions** and to weigh on economic activity, hiring, and inflation. The extent of these effects is uncertain.*



Comments From Jerome Powell's Press Conference

The following comments are from Jerome Powell's press conference following the release of the FOMC meeting statement.

- After comforting words regarding the banking crisis, he stressed that prices are too high and the "labor market remains extremely tight." This is the balancing act Powell must perform.

- "High inflation imposes significant hardships," and "we are firmly committed to bringing inflation to our 2% objective."
- Powell and other Fed members want to see how tighter lending standards affect economic activity. "Some additional policy firming may be needed."
- The Fed did consider a pause of rate hikes based on recent events, but only a few weeks ago, they thought they would raise rates more than the market expected.
- Powell believes tightening lending standards are worth one rate hike or maybe more.
- He is not concerned that yesterday's rate hike will further fuel the banking crisis.
- There are other options to tighten financial conditions, but he thinks rates are the best tool at the moment.
- Goods inflation is coming down but more slowly than the Fed would like. Housing inflation will be falling soon, but it isn't yet. Prices in the non-housing services sector have yet to peak.
- A reporter told him the market expected a pause after one hike and a quick pivot. Powell firmly responded, "that is not our baseline expectation."
- Powell clarified that the recent balance sheet expansion is not intended to alter the stance of monetary policy. In other words, he does not consider recent emergency measures QE.

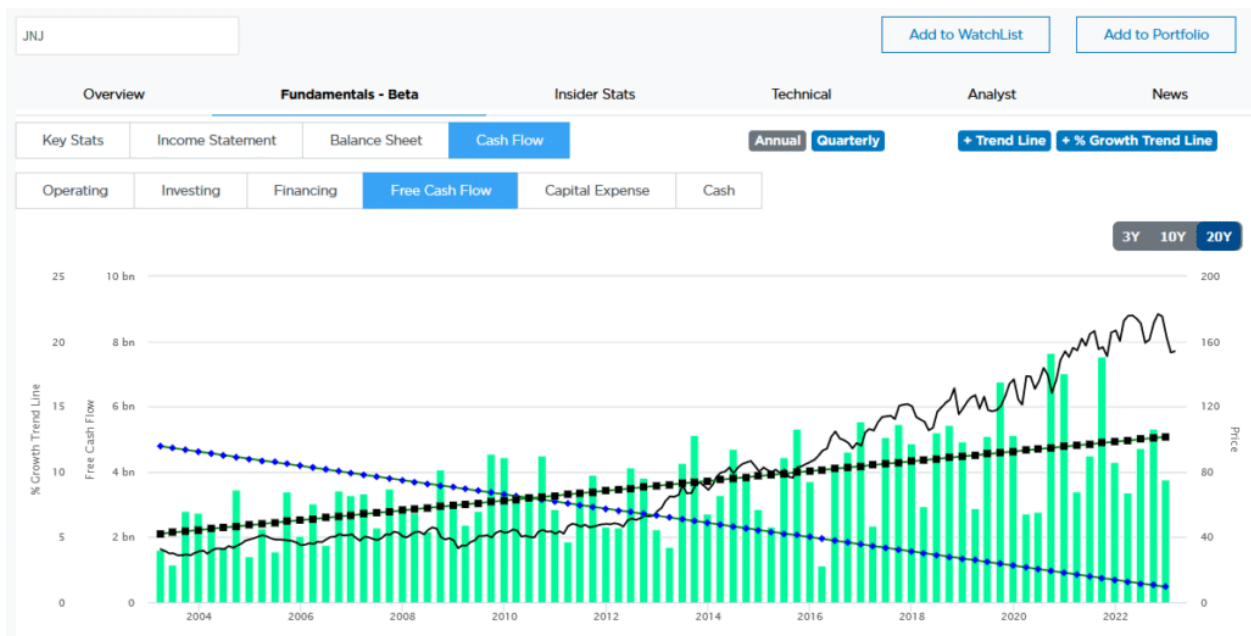
The key takeaway from the statement and press conference is the following quote from Powell:

Recent banking events might result in tighter credit conditions that will impact the economy and how we need to respond.

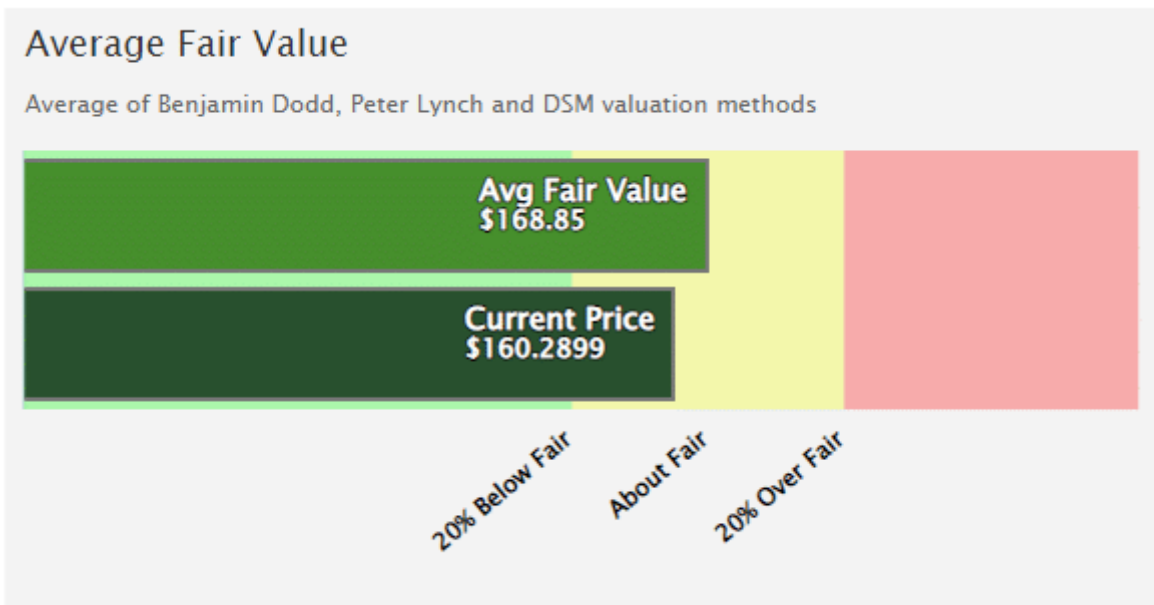
Consequently, banker lending surveys and indications of lending standards will likely become critical data points to watch to anticipate what the Fed may do.

New SimpleVisor Fundamental Analysis

SimpleVisor added a new tool allowing subscribers to graph key fundamental data and their trends. Go to SimpleVisor and click Research > Research - Stock > Fundamentals - Beta to see our new addition. Over 20 pieces of fundamental data are compiled from the balance sheet, income statement, and cash flow statement. For example, below, we show JNJ's free cash flow for the last 20 years. The green lines representing quarterly free cash flow are rising, as the black trend line shows. However, the blue trend line, charting its trended percentage growth rate, shows free cash flow growth has fallen from about 15% to 4%.



Below the charts is our new fair value calculator. The fair value model uses the average of our proprietary discounted cash flow model and two other widely followed methods. In this case, JNJ is currently about \$8 below its fair value, according to these models.



Tweet of the Day



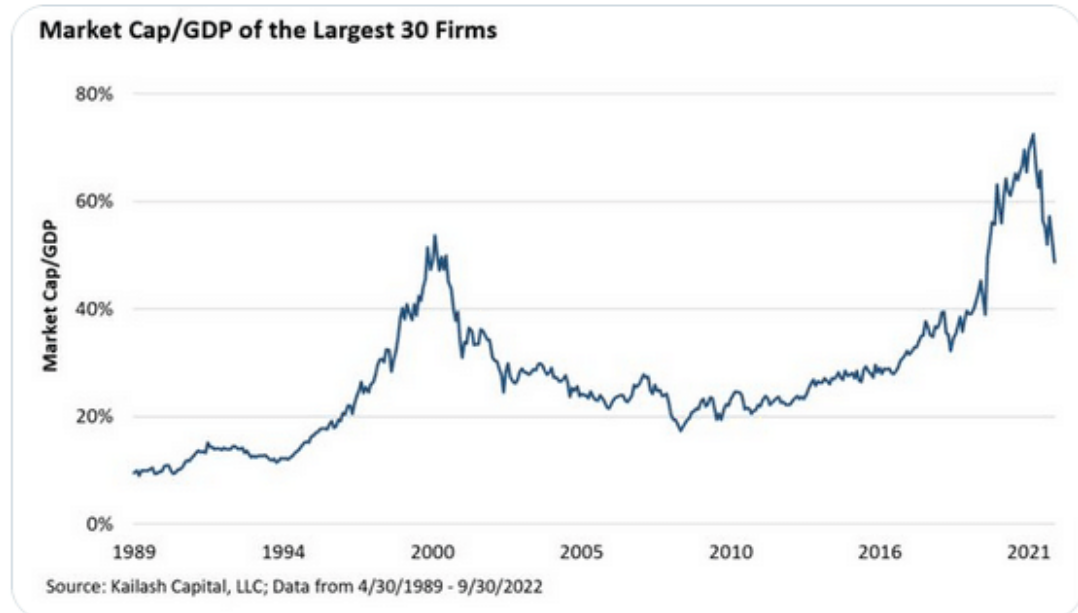
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...

Does it make sense to have 30 #stocks in the United States valued at half the country's #GDP? It has never made sense before. Maybe it is different this time, but we doubt it.

Large Cap Growth Index Funds & the Path to Poverty ↓

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