Clark Capital Management Group

# Commentary

## Navigator® Market Update

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# Federal Reserve Delivers Additional Rate Hike

The Fed concluded its 2-day meeting yesterday and hiked rates by 0.25%. It was their ninth consecutive rate hike. The hike was expected. Just two weeks ago in testimony before Congress, Chairman Powell's hawkish tone suggested a 50 basis point hike, which took the market off guard. However, the banking situation has changed the tone of rate hikes, and the Fed delivered on the expected 0.25% increase.

The FOMC raised the funds rate target range to 4.75% - 5.0%. The post-meeting statement noted that, while the "banking system is sound and resilient," the recent banking stress is likely to "weigh on economic activity, hiring, and inflation," though the extent of these effects was "uncertain." The FOMC removed the reference to "ongoing" hikes in the post-meeting statement and noted instead that "additional policy firming may be appropriate." The Committee reiterated that it "remains highly attentive to inflation risks."

There were some not so subtle changes in the Fed's statement. The Fed removed language related to Russia's invasion of Ukraine and changed the messaging about the outlook for rate hikes. They took out language noting that ongoing increases in the target range will be appropriate, and instead said that "some additional policy firming may" be appropriate. This language change was later explicitly tied to the recent banking system dynamics in Powell's opening statement; it assumes that events "result in tighter credit conditions." Fed Chairman Powell created some optionality for changing the trajectory of policy conditional on broader pain in the banking sector hitting the real economy, but if that does not emerge and the strong inflation and labor market data holds up, then rate hikes could re-accelerate.

Fed Chairman Powell and Treasury Secretary Yellen gave conflicting statements yesterday on the banking crisis. Treasury Secretary Janet Yellen told a Senate Committee that she is not considering a broad increase in deposit insurance at U.S. banks. Her statement was the opposite of Powell's, who said that the Fed has the tools to protect depositors and is prepared to use them to safeguard deposits. Those conflicting statements do not instill a lot of confidence and as such could exacerbate deposit withdrawals from smaller banks.

Ultimately, we believe the stress amongst some banks has likely led to an earlier conclusion for the Fed rate hike cycle. There will undoubtedly be volatility around the turmoil in the banking sector, but the end of rate hikes should be viewed positively by stocks as this headwind is removed. As always, we believe it is imperative for investors to stay focused on their long-term goals and not let short-term swings in the market derail them from their longer-term objectives. not let short-term swings in the market derail them from their longer-term objectives.

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