Macro Roundup Artcile

Headline: The Fed Must Not Flinch

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Tweet: .@MichaelRStrain argues that, while tighter financial conditions might bring down the ultimate terminal rate, the Fed should still hike 50bps today to signal that “its resolve in fighting inflation is unshakable.”

Summary: While the failures of Silicon Valley Bank (SVB) and Signature Bank are significant market events, they should not knock the Fed off course. Tighter financial conditions might reduce the terminal federal funds rate. But the terminal rate was likely around 6% before SVB failed. The Fed still has some way to go. A lower terminal rate is no reason to avoid a 25 or 50 bps increase at this week’s meeting. By raising rates this week, the Fed has the opportunity to send two important signals: first, that it has confidence in the stability of the financial system, and second, that its resolve in fighting inflation is unshakable.

Primary Topic: Banking

Topics: Banking, Business Cycle, Inflation, Op-Ed/Blog Post

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