

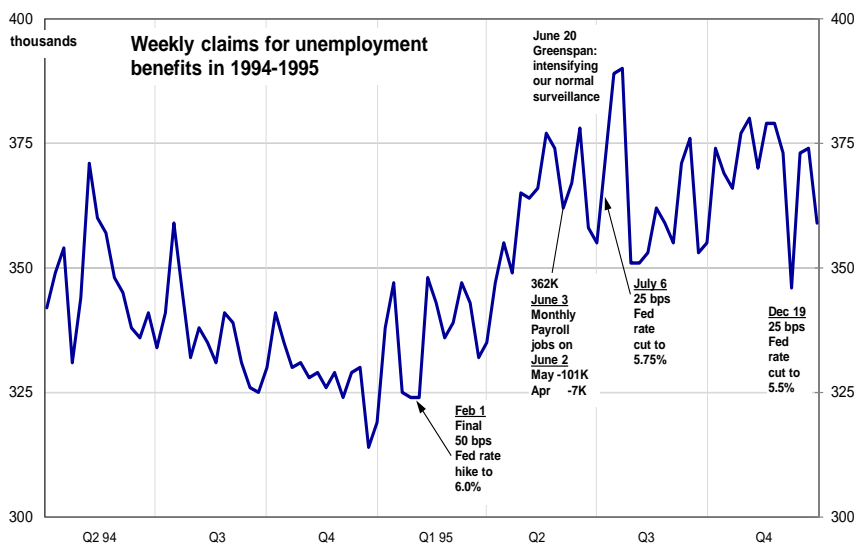
# Financial Markets This Week

8 APRIL 2022

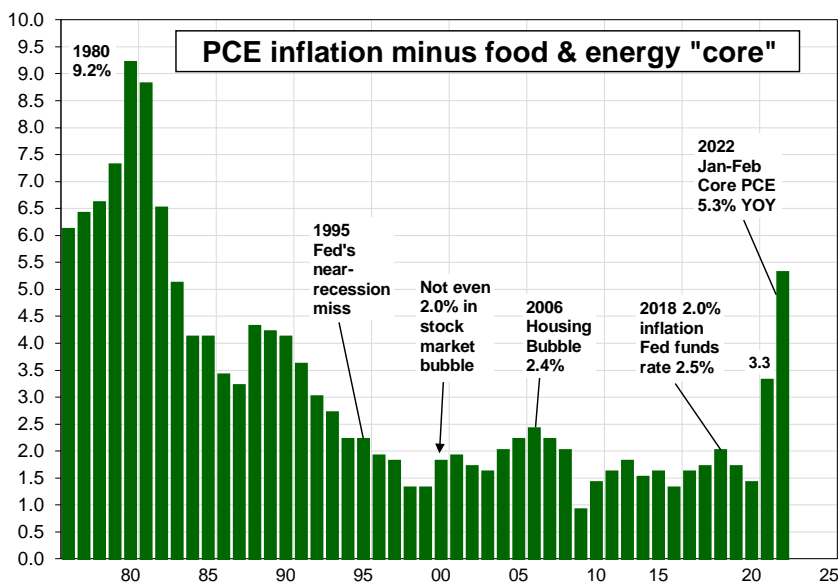
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## 1995 NEAR-RECESSION MISS

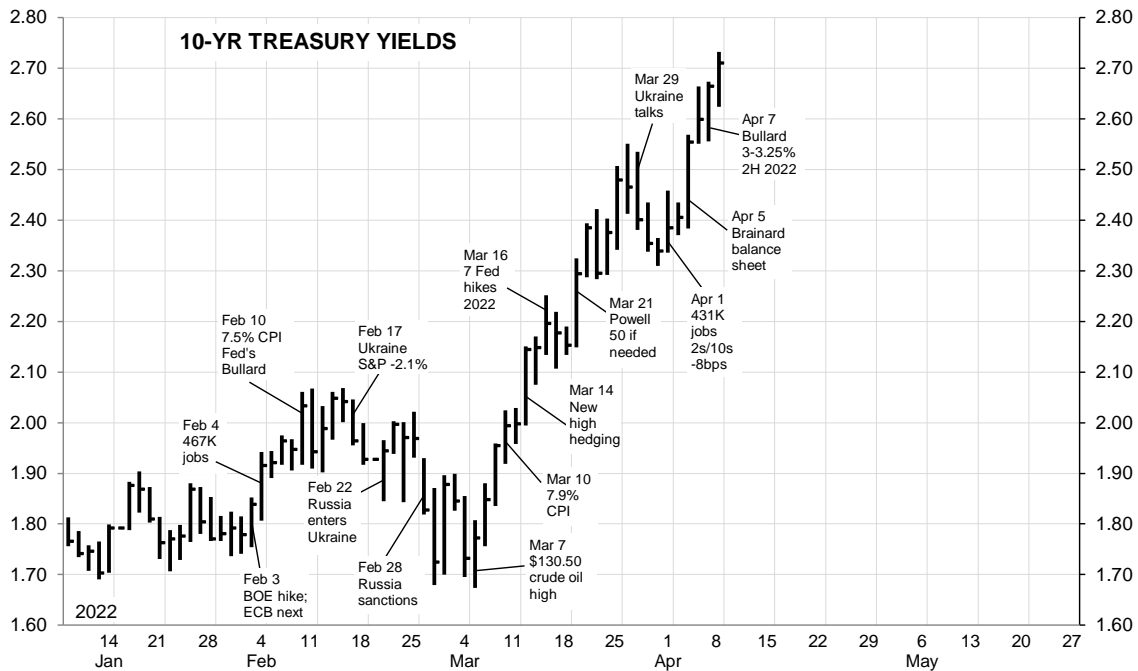
Fed officials are talking big rate hikes and markets are worried about recession. 1995 is the time where Fed policy tightening did not cause a recession. The central bank moved rates up quickly from 3.0% in February 1994 to 6.0% in February 1995. Shortly after the final 50 bps rate hike to 6.0% on February 1, 1995, the weekly unemployment claims data showed more company layoffs. This is what we need to watch for again even if the Fed funds rate is just 0.50% today, partly because market rates discount a 2.5% Fed funds rate in December 2022. The upward move in new jobless filings in 1995 looks deceptively modest, starting from about 325 thousand per week “normal” in January 1995 and moving to the economic stress level of 375 thousand in May 1995. It happens quick. Some Fed officials may have wanted to cut rates in coming months by 100 bps, but at the May 23, 1995 meeting Greenspan said “there is no evidence of a cumulative decline in the economy.” On June 20, 1995, he said in a speech it “is a time for intensifying our normal surveillance.” Indeed. On July 6, 1995, the Fed cut rates at its meeting by 25 bps to 5.75%.



It is interesting historically, that the core consumer inflation the Fed was fighting in 1995, as measured by the personal consumption expenditures deflator, was not much to write home about. Inflation today is obviously a much bigger problem even if it came on suddenly. In economics, if an indicator rises quickly over one or two years it can conceivably fall back over one or two years, unlike the inflation in the late 70s that was persistently high. Time will tell. Let the record show the Fed did raise rates quickly by 300 bps in a one year period in 1995 and the economy missed a recession.



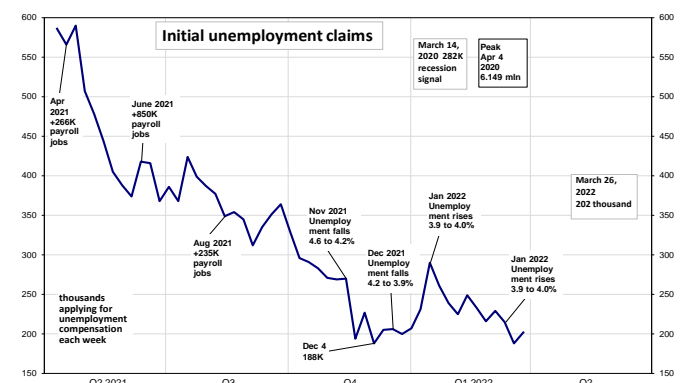
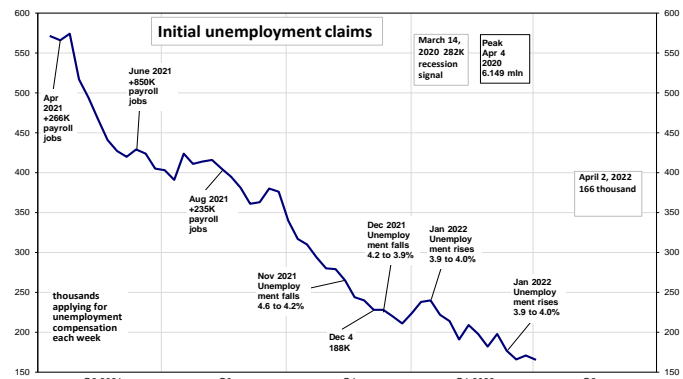
INTEREST RATES



10-year yields made a new 2022 high at 2.73% on Friday. You know the Fed is getting tough when Fed Governor Brainard wants to wage war on inflation. [She spoke Tuesday](#) before the Opportunity and Inclusive Growth Institute that is at the Minneapolis Fed. There won't be any economic growth if the Fed raises the cost of borrowing with massive interest rate hikes and an aggressive balance sheet wind down. Brainard is waiting on a confirmation vote to replace Clarida as Fed Vice Chair later this month. Bond yields went higher on Thursday, possibly mortgage-hedge sales with Wednesday's close above 2.50% the first time. Bullard moved yields higher still on Thursday with a 3-3.25% Fed funds rate on his wish-list in the second half this year. Just sticking with the next three Fed meetings, August 2022 Fed funds futures are discounting two 50 bps rate hikes and one 25 bps move. Stay tuned.

**No recession yet with unemployment claims at new lows**

Weekly jobless claims were just 166K in the April 2 week and show no sign of rising anytime soon. There were revisions back to 2017 this week and now new jobless filings have been below 200K for 7 straight weeks. No evidence of a cumulative decline in the economy as Greenspan put it in 1995... yet. Wonder what he would do with the 0.50% Fed funds rate if he were still Fed Chairman today.



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