

FOMC Update

. . . as summarized by Smith Shellnut Wilson

May 4, 2022



The Federal Reserve delivered the biggest hike in interest rates since 2000 and announced it would start shrinking its massive balance sheet next month, deploying the most aggressive tightening of monetary policy in decades to combat soaring inflation.

The U.S. central bank’s policy-setting Federal Open Market Committee on Wednesday voted unanimously to increase the benchmark rate by a half percentage point. It will begin allowing its holdings of Treasuries and mortgage-backed securities to decline in June at an initial combined monthly pace of \$47.5 billion, stepping up over three months to \$95 billion. “The committee is highly attentive to inflation risks,” the Fed said in the statement, adding a reference to Covid-related lockdowns in China that “are likely to exacerbate supply chain disruptions.” That comes on top of Russia’s invasion of Ukraine and related events, which are “creating additional upward pressure on inflation and are likely to weigh on economic activity.”

The personal consumption expenditures price index, the Fed’s preferred gauge for inflation, rose 6.6% in the year through March, more than triple the central bank’s goal of 2%. Investors are increasingly betting the FOMC will opt for an even bigger rate increase, of three quarters of a percentage point, when it next meets in June, which would be the largest single hike since 1994. While officials have so far downplayed the idea, several have in recent weeks expressed a desire to “expeditiously” bring the federal funds rate to around 2.5% by the end of the year, a level they deem roughly “neutral” for the U.S. economy.

Please click the link for a [side-by-side comparison](#) of the U.S. Federal Open Market Committee statements from May 4, 2022 and March 16, 2022.

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