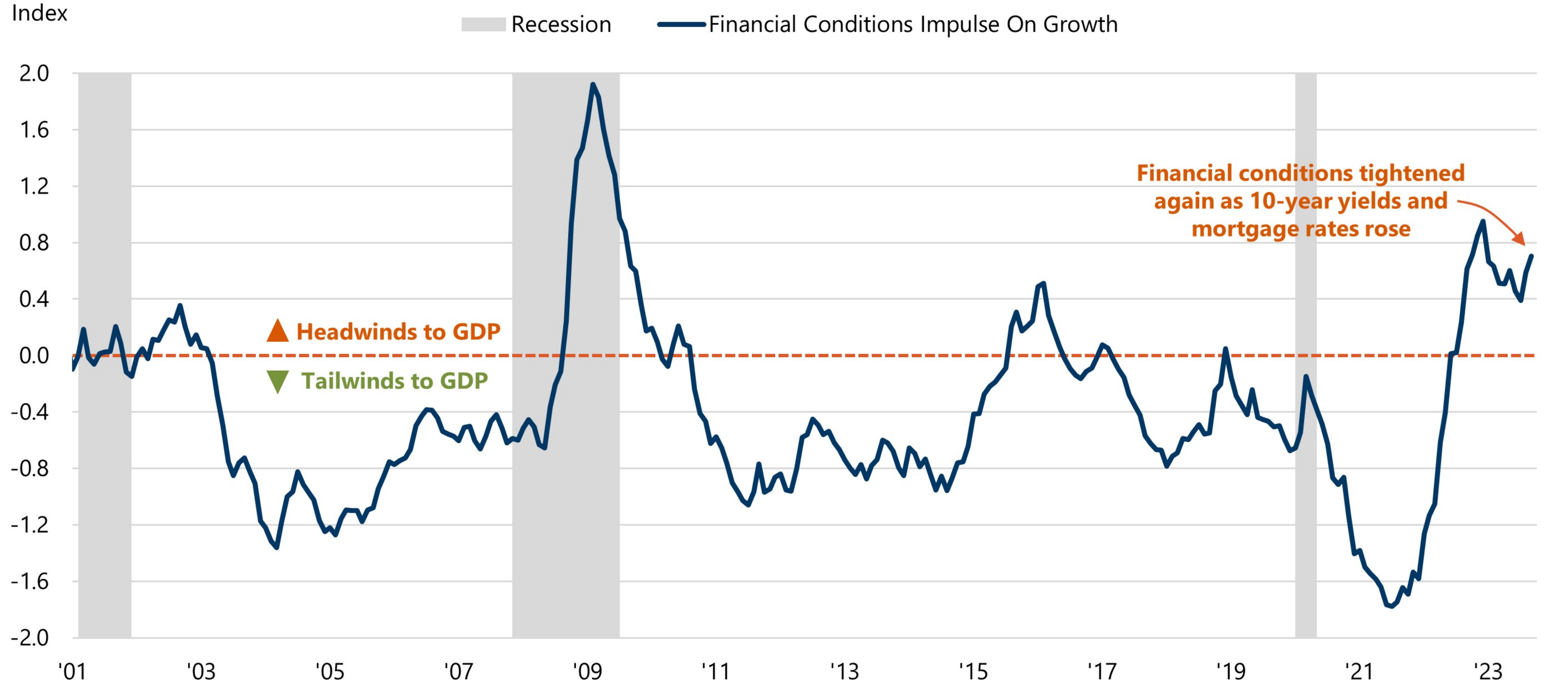
It's Conditional

U.S. Financial Conditions Impulse On Growth (Baseline)*

For The Week Ending 11/03/2023



Source: Board of Governors of the Federal Reserve System

**Index considers the recent three-month changes in rates, spreads, equities prices, dollar value, and house prices*

The Federal Open Market Committee held its policy rate steady for the second consecutive meeting this week. In response, government bonds rallied as investors concluded the Fed was done. Fed Chair Jerome Powell was more circumspect, saying that policymakers still ask, "Are we restrictive enough?" Why do policymakers suspect they might have done enough? Well, by hiking by 525 basis points over the previous 13 meetings, for starters. Second, Powell pointed to tighter financial conditions as a key reason for the central bank to stand pat. Indeed, a new Fed index ties financial conditions to economic growth. Financial conditions have tightened (no surprise given the surge in 10-year Treasury yields). Tighter financial conditions should weigh on growth and help rein in inflation. However, inquiring minds wonder, if financial conditions are so tight, why has economic growth remained robust, the unemployment rate low, and inflation well above target? Has the Fed done enough? Many investors think so, but given the recent run of U.S. economic data, we're not so sure.