

Hawk or dove?

Recent Fed minutes indicate that there will almost certainly be a hike at the March meeting - given that, Chairman Powell may need to add some aggressive testimony to stamp his hawkish credentials



bird

First day dilemma

It's your first day in a new job as manager and everyone is looking to see how you are going to behave compared to the old, now departed boss. At heart, you are just as mild-mannered as the previous incumbent. But you don't want your staff to start taking advantage - loitering around the water cooler, looking at pictures of kittens on the internet instead of working, sneaking off early with pockets full of stationery. So in your first week, you come down hard on all those acts of slackness, generate a quick sense of credibility that you are not to be messed with, and as the new work norms take hold, you gradually lighten up. and let the inner "dove" emerge.

Is this how Chairman Powell will behave? In truth, I have no idea, and it is his monetary policy stance I care about, not his domestic management style. There is, however, plenty of economic literature to suggest that this would not be a bad way to proceed - for those with a nerdy leaning, the seminal article on this [can be found here](#), in Robert Barro's article.

Fed already sounding gung-ho

But with the latest Fed minutes showing members generally very upbeat on growth, and giving the economy the benefit of the doubt on wages and inflation, merely hiking rates at the Fed's next meeting on March 22nd may not be viewed as a particularly hawkish act - indeed, to stamp his

authority, Powell may need to ratchet up the rhetoric on the pace of Fed tightening, and the scale of tightening likely for 2019 too.

And thereby lies the problem. Because if there is anything that is likely to generate more volatility in equity markets, and indeed, in bond markets, it is thoughts of a more aggressive Fed. US equities were soft again yesterday, bond yields higher and the dollar a little stronger too. But Asian markets may push back against this today, on China's markets first day back from the Lunar New Year holiday.

Whilst very little is clear in financial markets, one thing that does seem crystal clear today is that currently, stocks are not sufficiently weak for the Fed to hold off from hiking in March. The S&P500 is still more than 1% higher than it was at the start of the year. Unless such markets are in disorderly retreat, then this view is unlikely to change.

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