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Hawk at Jackson Hole

The stock market plunged after the much-awaited speech of Federal Reserve (Fed) Chair Jerome Powell at Jackson Hole, Wyoming last Friday. The Dow fell more than 1,000 points, the S&P 500 dropped 3.4%, and the Nasdaq plunged 3.9% as Powell came off more hawkish than expected.

Jackson Hole Economic Symposium

Jackson Hole is an important part of the market calendar. The annual symposium is hosted by the Fed for central bankers, policymakers, academics, and economists. Investors eagerly await this event because central bankers customarily provide a clear policy roadmap in their Jackson Hole speeches. These have major implications on the interest rate outlook and the movement of various asset classes such as equities, bonds, and currencies. This is why we have written numerous articles on the economic policies that were enunciated in Jackson Hole. It was in Jackson Hole that former Fed Chair Ben Bernanke unveiled Quantitative Easing (QE) 2 and 3. I was fortunate to be in the same lodge as Bernanke when he delivered one of his historic QE speeches.

Powell’s hawkish speech

In his speech, Powell was stern on inflation and was more hawkish than expected. Below, we summarize his Jackson Hole speech by listing some memorable quotes.

1. “The Federal Open Market Committee’s overarching focus right now is to bring inflation back down to our 2% goal. Price stability is the responsibility of the Federal Reserve and serves as the bedrock of our economy.”
2. “Restoring price stability will take some time, and requires using our tools forcefully to bring demand and supply into better balance. Reducing inflation is likely to require a sustained period of below-trend growth. Moreover, there will very likely be some softening of labor market conditions.”
3. “While higher interest rates, slower growth, and softer labor market conditions will bring down inflation, they will also bring some pain to households and businesses. These are the unfortunate costs of reducing inflation, but a failure to restore price stability would mean far greater pain.”
4. “While the lower inflation readings for July are certainly welcome, a single month’s improvement falls far short of what the Committee will need to see before we are confident that inflation is moving down.”
5. “We are moving our policy stance purposefully to a level that will be sufficiently restrictive to return inflation to 2%.”
6. “In current circumstances with inflation running far above 2% and the labor market extremely tight, estimates of longer-run neutral are not a place to pause or stop.”
7. “Restoring price stability will likely require maintaining a restrictive policy stance for some time. The historical record cautions strongly against prematurely loosening policy.”
8. “Central banks can and should take responsibility for delivering low and stable inflation… Our responsibility to deliver price stability is unconditional.”
9. “The public’s expectations about future inflation can play a role in setting the path of inflation over time… Part of the job of returning to a more stable and more productive economy must be to break

the grip of inflationary expectations… The longer the current bout with high inflation continues, the greater the chance that expectations of higher inflation will become entrenched."

10. "We must keep at it until the job is done. History shows that the employment costs of bringing down inflation are likely to increase with delay as high inflation becomes more entrenched in wage and price setting."

Sustained restrictive policy stance

Powell's hawkish speech outlined a sustained restrictive policy stance to combat inflation. These remarks come amid emerging signs of an economic slowdown. US GDP decreased 0.6% in 2Q22 following a 1.6% contraction in 1Q22. US inflation remained high at 8.5% in July despite declining from 9.1% in June. Inflation in Europe surged to a new high of 8.9% in July from 8.6% in June. Europe continues to reel from surging energy prices that are expected to last until yearend as a direct impact of the ongoing Russia-Ukraine war. Meanwhile, China is suffering from a severe property crisis, an economic slowdown due to its Zero COVID policy, and its worst heat wave on record.

Enduring pain to beat inflation

Powell said that interest rates may need to stay higher for longer in order to beat inflation. He cautioned that this may cause some pain to the US economy but also warned of far worse consequences if inflation is left unchecked. He made reference to the late-1970s when US inflation ran away for many years and even reached double-digit levels. Despite warning of some economic pain, Powell wants to prevent a recurrence of the Great Inflation of the 1970s.

Sending a clear message

The S&P has rebounded by as much as 17% from its June low. This was fueled by hope that the Fed will slow down the pace of rate increases, pause from policy tightening, and eventually pivot. However, in his prepared speech in Jackson Hole, Powell dashed these hopes. Instead, he sent a loud, clear, and hawkish message which outlined the Fed's policy direction. Investors got the message as the stock market dropped sharply after Powell's Jackson Hole speech. Below, we recap some of Powell's most strongly-worded phrases which spooked investors and caused the market to tank.

- "…price stability is unconditional."
- "…a sustained period of below-trend growth."
- "Failure to restore price stability would result in far greater pain."
- "… a level that will be sufficiently restrictive to return inflation to 2%."
- "…estimates of longer-run neutral are not a place to pause or stop."
- "…a restrictive policy stance for some time."

Powell's hawkish Jackson Hole speech has prompted investors and strategists to reassess their economic view and review their interest rate outlook.