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Instant Thoughts

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Slipping from Grasp

- Chair Powell didn't care much about Waller's opposition. The phrase "well positioned" was still one of the most used at Powell's presser. Our near-term bias remains towards higher yields on a potential pickup in corporate issuance once the dust settles.
- It appears that the race for Fed Chairmanship has narrowed down to Kevin Warsh and Rick Rieder. Warsh, a former Fed Governor, is more skilled at consensus building, and Rieder represents more of the business side of markets. In either case, the new chair will pledge outsized loyalty to Trump.
- A delayed Fed cut however is not a forgotten Fed cut. We expect the Fed to cut rates again in June. What we suspect will emerge next is an ongoing consolidation in yields.

As the unemployment rate is now characterized as having "shown some signs of stabilization," the Fed delivered exactly what anyone with common sense would have predicted: a pause.

To our surprise, Governor Waller joined Miran in dissenting in favor of a 25bps cut. Playing defense doesn't help anyone win contests, and so Powell didn't care much about Waller's last-ditch effort to keep his race as Powell's successor alive. The phrase "well positioned" was indeed one of the most used at Powell's presser.

Our near-term bias remains towards higher yields on a potential pickup in corporate issuance once the dust settles.

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Allow us to go a step further. It appears that the race for Fed Chairmanship has narrowed down to Kevin Warsh and Rick Rieder. Warsh, a former Fed Governor, is more skilled at consensus building, and Rieder represents more of the business side of markets. In either case, the new chair will pledge outsized loyalty to Trump.

Said differently, a delayed Fed cut is not a forgotten Fed cut. Our base case remains that the Fed will cut rates again in June. Coupled with the scale-up of G-SIB balance sheet following the end of yearend reduction of risk scores, what we suspect will emerge next is an ongoing consolidation in yields.

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