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Markets were surprised by the Fed's hawkish move last week.
Powell clearly stated that the policy rate, as it is, is well below neutral and that with the inflation target of 2%, his tool will be to move demand down. And with current levels of unemployment historically low, rates could rise significantly for him to be comfortable with maintaining and adhering to the Fed's dual mandate of maintaining employment and price stability. It wouldn't be difficult for him to justify a major slowdown in demand or a rise in unemployment, because inflation seems to be target number one.

The world has been hit by many policy contradictions and market distortions.
We had the IEA last year before COP26 saying that no new oil projects should be funded as part of the global climate transition regime, but we now see global oil supply struggling to meet rising demand in 2023. We had the US and whole ESG community in general, steering financial resources away from refining and upstream, and today have Biden berating oil companies for not bringing more capacity online. Reality has required us to face up to these contradictions and it won't be an easy balance to strike. The inflation issue and the wealth gap are really going to come to a head across the world, compounded by the war in Ukraine and sanctions. And what will have to give is ESG to a certain extent, with coal coming online in Europe to generate power, and with VAT exemptions on fuel also being asked for. Many of these problems are beyond the purview of bankers to solve, so a lot of the global policy consensus will have to be reworked. ■

**Paraphrased Comments*

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