THE FED IS LOOKING AS IF (STILL) BEHIND THE CURVE, AND INVESTORS ARE SPOOKED

Soaring inflation — and by extension interest rates and expectations for Federal Reserve rate hikes — have made their presence felt on Wall Street recently.

After spending most of last year downplaying the threat of tighter monetary policy and higher yields, the 10-year note spiked to nearly 2% with the inflation-sensitive 2-year yield hitting 1%, both at their highest levels in 2 years.

We have been warning about inflation already spring 2021 (check out our cartoons about inflation threat since then) but the market did not seem to take the threat seriously or just believed gullably that Mr. Powell would continue to help to grow their equity portfolios.

But jumping yields have finally spooked investors and sent blue-chip and tech shares reeling.

The decisive end to the market's placidity about the coming rate hike cycle reflects mainly one major driver – inflation. And it seems to be everywhere. Wage driven, production bottlenecks, supply chain difficulties to name a few reasons.

Investors are growing fearful that a behind-the-curve Fed will have its hand forced by inflation — and as a result will need to get a lot more aggressive on rate hikes than current conditions suggest, even as growth rates come back down to earth.