



“In More Than 40 Years Of Trading, Never Have I Witnessed A Market Fighting The Fed As Boldly As This One”

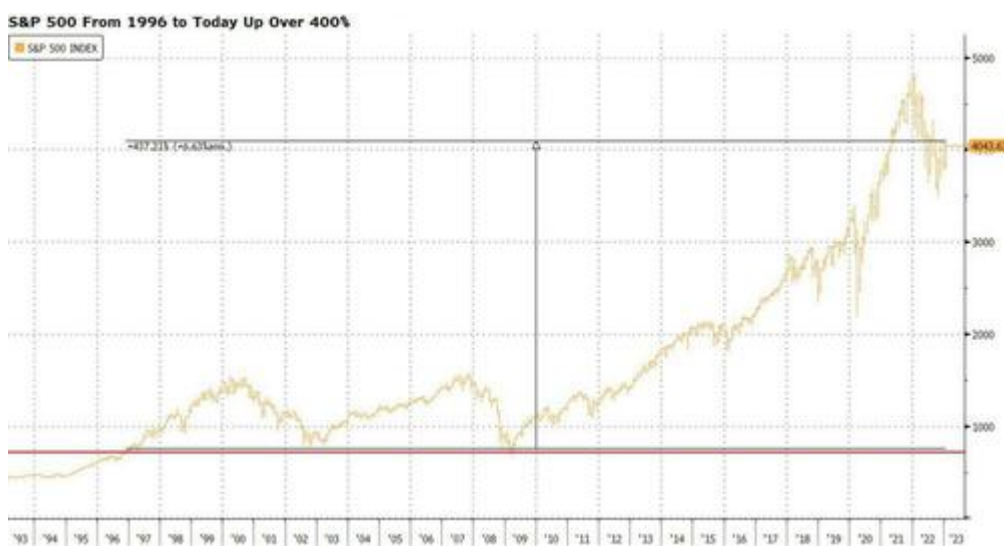
Description

Traders Take On The Fed Over Rates And Might Win The Battle

In more than 40 years trading and covering markets, never have I witnessed a market fighting the Fed as boldly as this one.

Even as one Fed speaker after another preaches higher rates for longer, bond traders continue to price 10-year Treasuries some 150bps to 200bps below where the Fed says the overnight rate must ultimately be, in my estimation.

Not just fixed income, stock investors are now on board. The S&P 500 has climbed from October lows to today, just two days before another Fed rate hike, some 16%. Why is the market so confident? One phrase: **irrational exuberance**.



“Irrational exuberance” was the phrase used by then-Federal Reserve Chairman Alan Greenspan in a

speech during the dot-com bubble of the 1990s. That phrase sent markets in a panic, widely interpreted as a warning that the stock market might be overvalued.

However, since the speech in December 1996, the S&P 500 is up more than 400% — proving the phrase marked the ultimate “buy the dip” moment.

If the Fed is incorrect and the market is right, rates will have to come down later this year, making bond and stock traders correct in this debate.

By Vincent Cignarella, Bloomberg Markets Live reporter and analyst

Category

1. Economy-Business-Fin/Invest
2. Main

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