



THE DOVE BIDS FAREWELL TO JACKSON HOLE

Highly anticipated for his final speech in Jackson Hole as Fed chair, J. Powell did not disappoint the hopes of many investors who were anticipating a cut in key interest rates in September. The Chair of the Federal Reserve certainly recalled the institution's dual mandate of price and employment stability, but once again confirmed his bias toward the latter. On the one hand, despite the latest statistics suggesting an acceleration in inflation for both goods and services, he continues to believe that inflationary pressures linked to tariffs should only be temporary. Inflation could therefore continue to rise in the coming months as the effects of tariffs spread throughout the economy, but the institution will be able to look through this. On the other hand, he highlighted the increasingly significant risks to the labor market, which he believes could justify "an adjustment in monetary policy." This confirms that the sharp downward revision in job creation figures at the beginning of August made a lasting impression, prompting the Fed Chair to significantly change his tone compared to the last monetary policy meeting. The labor market finds itself in a unique position, characterized by a decline in business demand amid trade uncertainties, but also by a drop in the supply of workers, meaning that the unemployment rate is not currently rising to alarming levels. Nevertheless, Powell's speech confirms that the Fed will not wait for the unemployment rate to rise before taking action, as the risk of a sudden acceleration is significant, with companies' reluctance to hire potentially quickly turning into a wave of layoffs.

Ahead of this conference, J. Powell faced not only the risk of disappointing investors anticipating monetary policy easing, but also that of undermining the central bank's credibility if he gave the impression of bowing to political pressure from D. Trump. With this well-crafted argument and communication strategy, the Fed Chair seems to have succeeded in paving the way for a cut in key interest rates at the September meeting without fueling mistrust of the Fed's independence. The financial markets largely welcomed this speech, with US equity markets soaring, particularly small and medium-sized companies, which are more sensitive to interest rate dynamics. Interest rates fell sharply, with much larger movements on shorter maturities, resulting in a significant steepening of the curve. For its part, the dollar underwent a sharp correction against the major currencies, confirming our negative bias towards the greenback.

More broadly, while J. Powell's speech has sparked a strong wave of risk appetite across all asset classes, as also evidenced by the significant tightening of high yield spreads, it is worth noting that the Fed's decision remains highly dependent on upcoming inflation statistics and, above all, employment figures. Employment is, more than ever, the true arbitrator for the conduct of US monetary policy.

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EDMOND DE ROTHSCHILD ASSET MANAGEMENT (FRANCE)

47, rue du Faubourg Saint-Honoré 75401 Paris Cedex 08

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332.652.536 R.C.S. Paris