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SVB failure throws Fed rate-hike decision next week into uncertainty

Bets rise that Fed pauses interest-rate hike campaign in March

By Megan Henney | FOXBusiness

Fed halting interest rate hikes would be a 'critical mistake': Jason Katz

UBS managing director Jason Katz discusses whether the Fed will halt raising interest rates because of market volatility brought on by Silicon Valley Bank on 'Varney & Co.'

Just a few days ago, a debate was raging over how big of an interest-rate hike the Federal Reserve would deliver at its March meeting in the face of hotter-than-expected economic data.

Chairman Jerome Powell took markets by surprise last week when he suggested the Fed may need to raise rates higher than previously anticipated and pick up the pace of increases amid signs of broad inflationary pressures within the economy. The hawkish commentary prompted investors to re-evaluate their expectations for the meeting, with many ramping up the odds that the Fed approves a half-percentage point hike during its March 21-22 meeting.

But Wall Street no longer sees that as a possibility after the stunning implosion of Silicon Valley Bank on Friday roiled global markets and triggered fears of a broader financial meltdown.

SIGNATURE BANK SHUT DOWN IN CONNECTION WITH SILICON VALLEY BANK COLLAPSE

A customer stands outside Silicon Valley Bank headquarters on March 10, 2023 in Santa Clara, California. (Justin Sullivan/Getty Images / Getty Images)

The probability that the Fed pauses its rate-hike campaign next week rose to 28% on Monday, according to data from the CME Group's FedWatch tool, up from 0% just one day ago. About 71% of traders, meanwhile, are anticipating a typical quarter-point hike.

Goldman Sachs is among the notable Wall Street firms predicting the Fed will not deliver a rate hike at its meeting, citing "recent stress" in the financial sector. The firm previously expected a 25-basis point increase.

"In light of the stress in the banking system, we no longer expect the FOMC to deliver a rate hike at its next meeting on March 22," Goldman economist Jan Hatzius said in a Sunday note.

FIRST REPUBLIC SHARES PLUNGE ON SVB CONTAGION FEARS

Many economists expect the Fed will continue to raise rates next week, albeit at a slower and more cautious pace than it would if not for the collapse of SVB – a key lender to tech startups and venture capital firms. That's in part because federal regulators stepped in on Sunday evening to shore up the banking system and backstop all deposits at SVB.

Federal Reserve Chairman Jerome Powell testifies during the Senate Banking, Housing, and Urban Affairs Committee hearing on Tuesday, March 7, 2023. (Tom Williams/CQ-Roll Call, Inc via Getty Images / Getty Images)

"While the Fed has historically cut interest rates following major negative financial events, such as a bank failure, efforts by regulators to bail out SVB depositors and provide loans to struggling banks will reduce systemic risk and enable the Fed to continue raising interest rates in an effort to keep fighting inflation," said Richard Saperstein, chief investment officer at Treasury Partners.

Central bankers are in the midst of the most aggressive campaign since the 1980s to crush persistently high inflation. Although the consumer price index has slowly fallen from a high of 9.1% notched in June, it remains about three times higher than the pre-pandemic average. New inflation data that will be released Tuesday morning is expected to show the CPI climbed 0.5% over the course of February and 6.1% from the previous year, underscoring the pervasiveness of high consumer prices.

Officials slowed the pace of rate increases to a quarter percentage point during their meeting last month, lifting the benchmark federal funds rate to a range of 4.5% to 4.75%. That followed a half-point increase at their December meeting and four consecutive 75-basis-point moves before that. The central bank typically moves rates in quarter-point increments.

Pedestrians near the U.S. Treasury building in Washington, D.C., on Dec. 30, 2022. (Ting Shen/Bloomberg via Getty Images / Getty Images)

At the time, policymakers suggested that slower rate moves could allow them to better assess the impact that tighter monetary policy is having on the economy.

Powell last week stressed that incoming data – including the February jobs report and fresh inflation data on Tuesday – will play a big role in the Fed's decision during its upcoming meeting.

"We have some potentially important data coming up," Powell said. "Those will be important and we'll scrutinize them… We have not made any decision about the March meeting."

What do you think?

GIF

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tutukane234

16 hours ago

There were some in the halls of congress calling for the Fed to ease off on it's rate hikes. The same thought has been circulating within the WH too. My hope is that the Fed do what is best for the people. The democrats have always been very good at exploiting controversy. SVB was poorly managed,...

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craniax

19 hours ago

This will perhaps be the worst part of this SVB failure. The Fed will use this as an excuse to quit fighing inflation and the subsequent high cost of living which has already produced a record amount of credit card debt. In just two years, Biden has managed to crush America's middle class workers. ...

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michaelragland

10 hours ago

I believe that lowering the rate increase and perhaps pausing for a month or so, but keeping the direction going in the immediate term may be required. The lowering of the inflation rate needs to continue in order to control inflation. We don't need a repeat of the Carter debacle that drove rates...

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fact-opinion

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Build Back Broke is exploding in biden's face !

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K

kahana^kahuna

14 hours ago

SVB's collapse is going to result in smaller and medium sized banks to be gobbled up by the 4-5 largest banks, thereby reducing competition and consumer choices. It is also giving more power to the Federal Reserve and regulators. It's all leading to a central, "digital currency" that will mean you...

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shippingman

11 hours ago

Tuesday's econ data pile will tell more. If things are cooling down in the data and tea leaves, then the Fed may pause or at least make a less amount in any i rate hike.

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U **utdb**
3 hours ago

Why would the Fed pause interest rate hikes? SVB has already failed.

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S **SparkyE**
14 hours ago

The fed is still printing money to cover government spending. Nothing else matters

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S **shippingman**
18 minutes ago

Techy bank mess, tech jobs being heaved, overseas wars, domestic wars in the cities and at the S. border, econ inflation, a useless/fake POTUS named Biden, and a $31.5 TRILLION debt. Really, Mister Powell? You need to deliberate your decision?

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