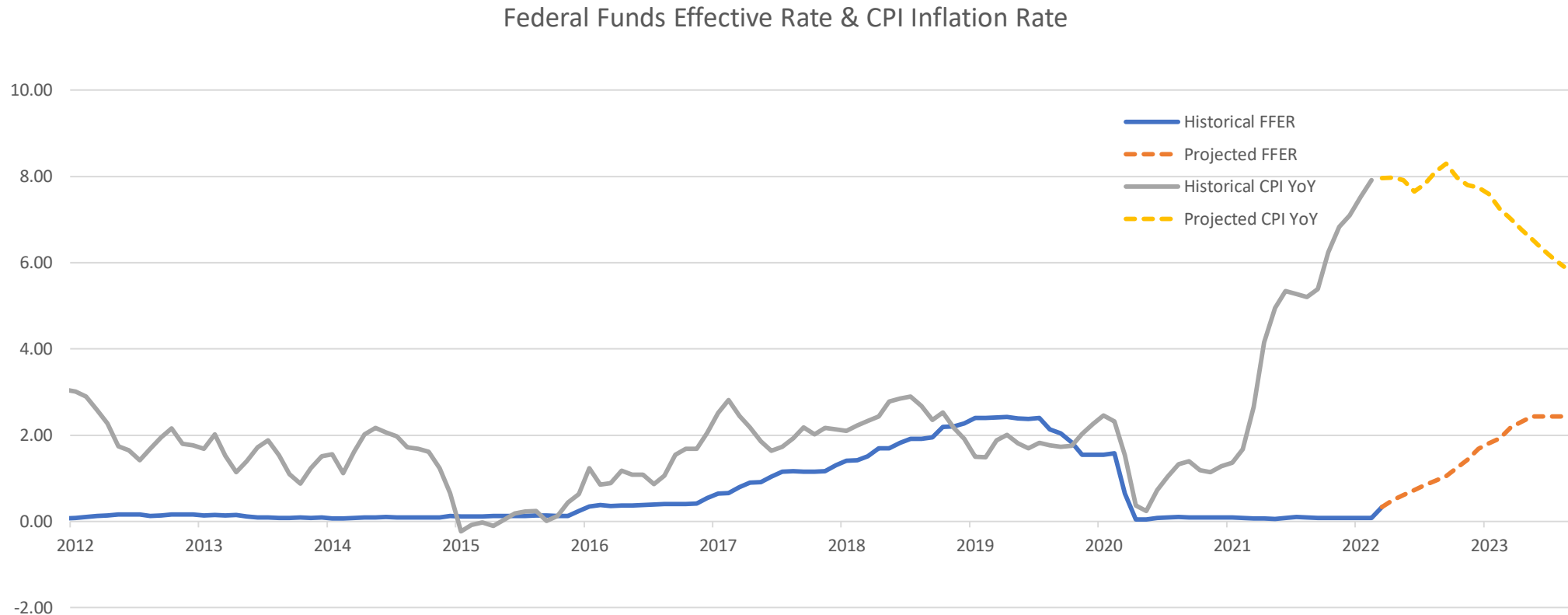


Outlook of Fed Monetary Policy Moves

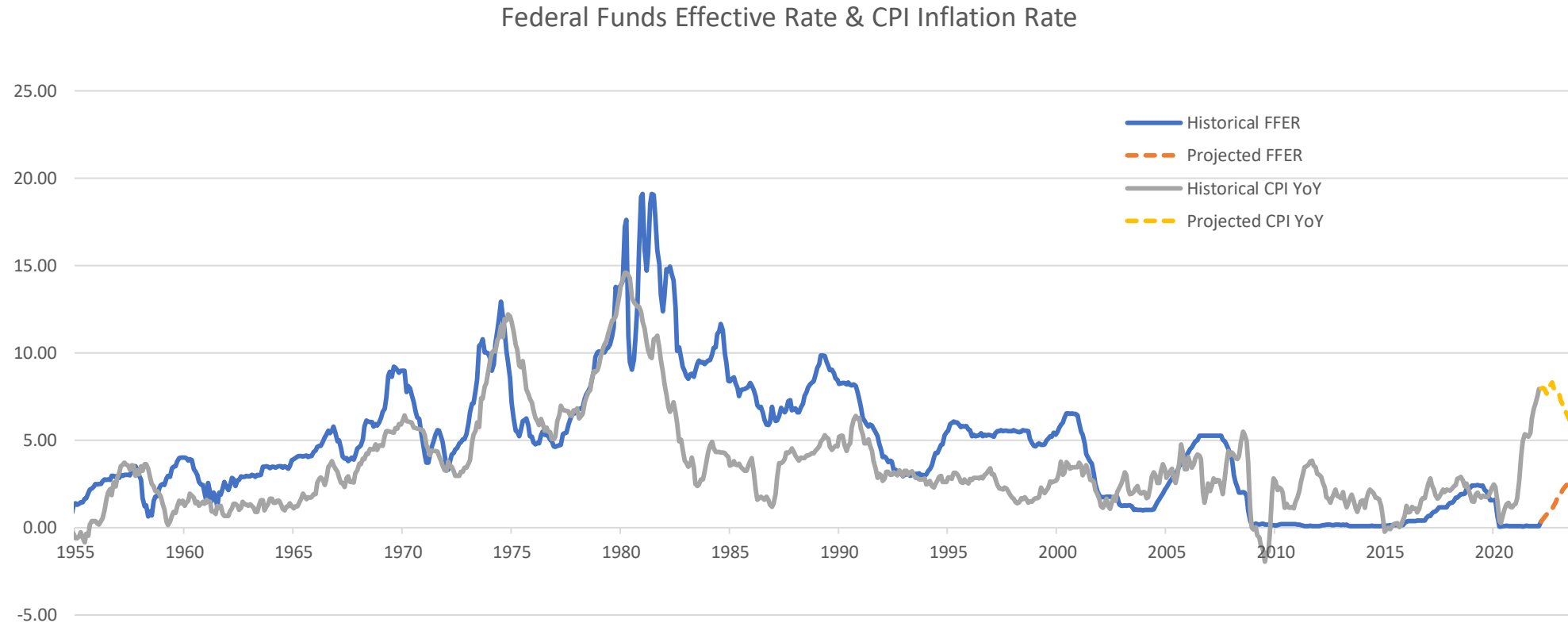
March 25, 2022

High inflation readings prompted Fed into action



Source: Federal Reserve Economics Data & GardenStar Group

High inflation readings prompted Fed into action



Source: Federal Reserve Economics Data, Bureau of Labor Statistics & GardenStar Group

Hawks in the Fed are now in vogue

FOMC - Hawk/Dove Analysis		InTouch Capital Markets			
Last Update: 10 February 2022					
Name	Position	Hawk Scale	Voter?		
			2022	2023	2024
Most Dovish					
Kashkari	Minneapolis		x	✓	x
Brainard*	Vice Chair		✓	✓	✓
Evans	Chicago		x	✓	x
Daly	San Francisco		x	x	✓
Williams	New York		✓	✓	✓
Powell	Chairman		✓	✓	✓
Bowman	Board		✓	✓	✓
Jefferson**	Board		✓	✓	✓
Raskin***	Board		✓	✓	✓
Cook****	Board		✓	✓	✓
Montgomery*****	Boston		x	x	x
Barkin	Richmond		x	x	✓
Mester	Cleveland		✓	x	✓
George	Kansas City		✓	x	x
Bostic	Atlanta		x	x	✓
Harker	Philadelphia		✓	✓	x
Black	Dallas		x	✓	x
Waller	Board		✓	✓	✓
Bullard	St Louis		✓	x	x
Most Hawkish					

Notes

2022 Voting members in bold

*Board Member Brainard is expected to replace Clarida as Vice Chair

**Philip Jefferson is expected to replace Brainard as Board Member

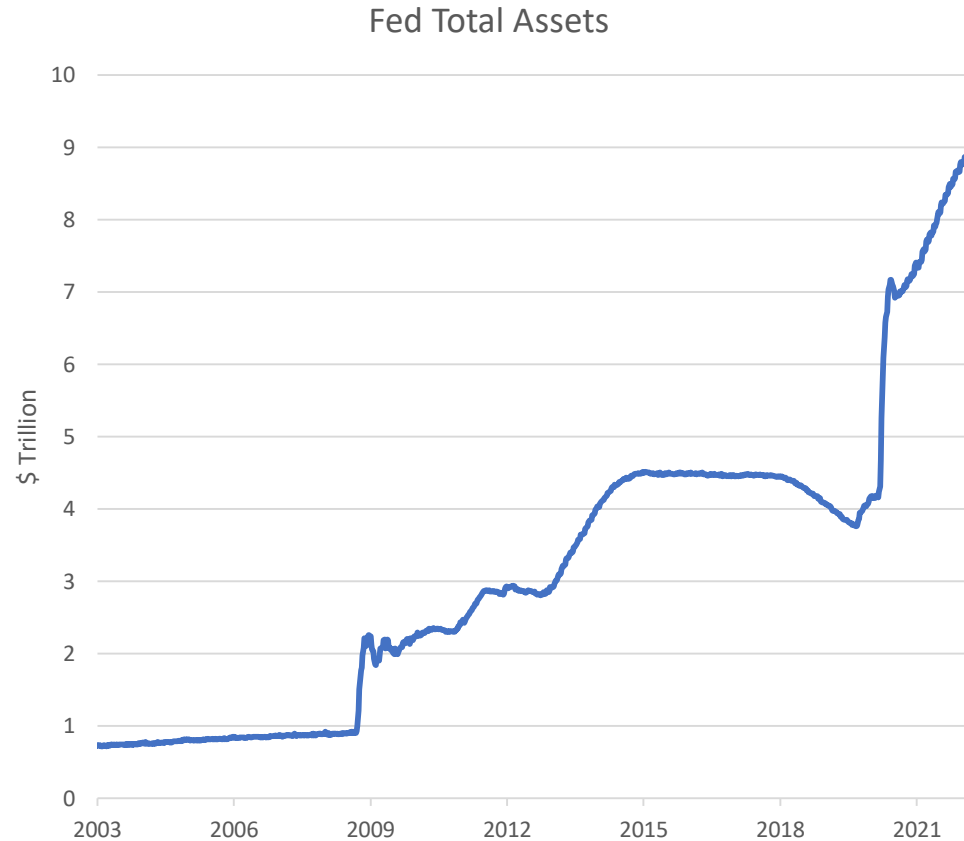
***Board Member Quarles is expected to be replaced from Sarah Bloom Raskin

****Lisa Cook will be nominated for vacant board member seat

*****Fed's Harker has voting rights in the H1 of 2022. On 1st July, Susan Collins will be the new President of the Federal Reserve Bank of Boston and a voter

- More hawks than doves will be voting in 2022
 - Hawks are members of the Federal Reserve typically in favor of tight monetary policy to keep inflation low.
- Even a dove like Mary Daly, President of San Francisco Federal Reserve Bank, voiced more hawkish view recently

What tool does Fed have to combat the inflation?



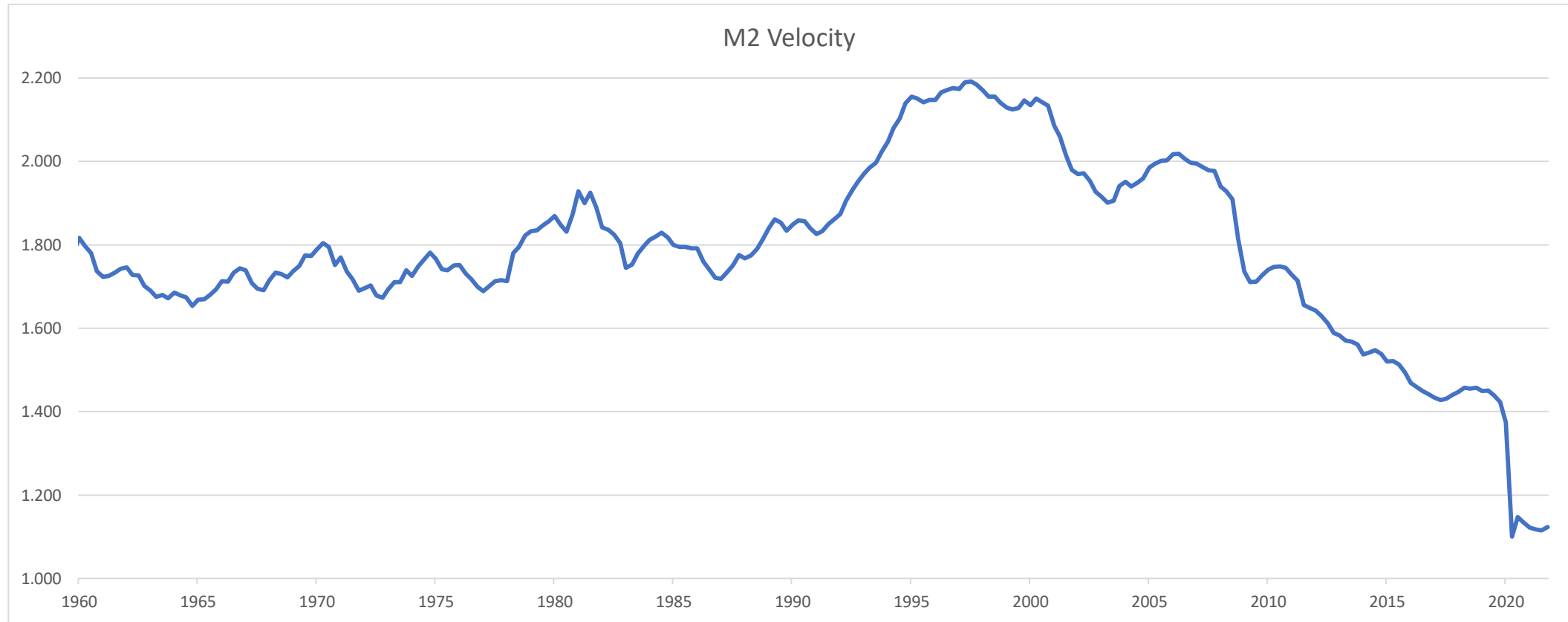
Source: Federal Reserve Economics Data

- Raise the Fed Fund Target Rate
 - May be done 6 times in 2022
 - Could raise by 50 bp in some time rather than 25 bp
- Reduce Fed balance sheet (currently at \$9 trillion)
 - Stop current buying program
 - May start to sell some or just let it taper

How effective rate hikes will be to contain inflation?

- The effectiveness is unclear. This inflation cycle is different
 - It doesn't appear that the inflation is due to an overheating in economic activities. There has been a great slowdown in M2 velocity
 - Labor costs have become a prominent component in inflation
 - Federal spending may be the main driving force in this inflation cycle
 - Another major driving force has been supply chain disruptions
 - Future international market disruption may continue to drive inflation in the medium term

Slowdown in M2 velocity indicate that economic activities are not overheating



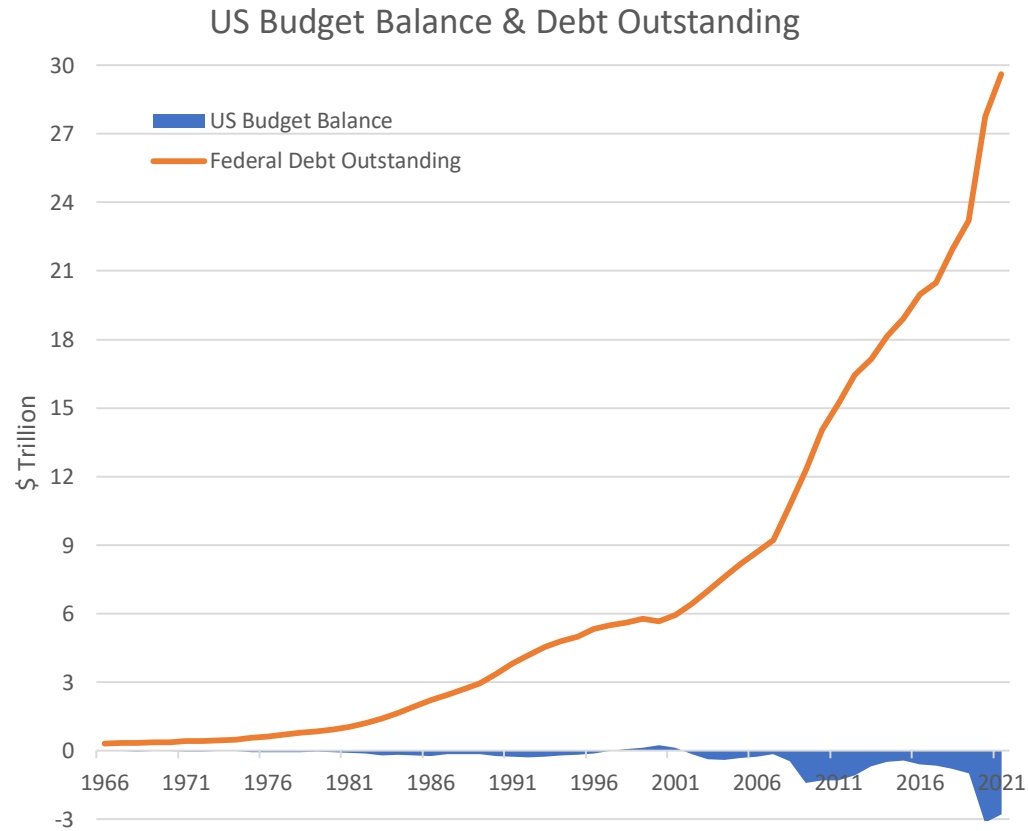
Source: Federal Reserve Economics Data

Labor cost has surged in recent years



Source: Bureau of Labor Statistics

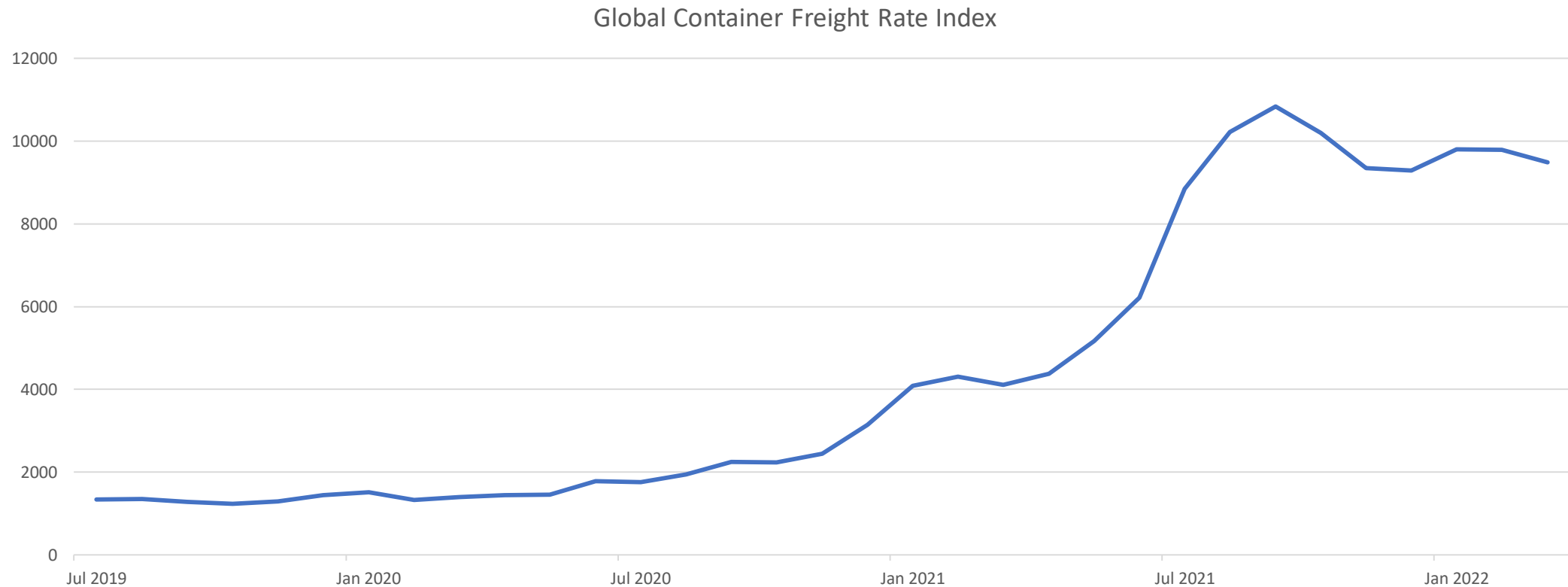
Federal spending has gone out of control in recent years



Source: Federal Reserve Economics Data

- Sharp rise in federal debt balance to over \$30 trillion, an increase of 25% in 2 years
- New issuance pace is \$18 trillion per annum
- Federal spending has ballooned to \$3 trillion per annum

Supply chain disruptions caused by the pandemic may ease, but won't go away easily



Source: Statista.com

Major uncertainties in the international market that may impact inflation rate

- Invasion of the Ukraine by Russia and subsequent sanctions
 - Crude oil and natural gas price rises
 - Agricultural product price rises
 - Especially in grain products
- Continuing trade friction between the US and China