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There may not be any analogy for the Fed's assumptions after last week's meeting. Inflation will get back below 3%, unemployment should remain around 4% and economic growth should remain relatively robust. All this while the Fed hikes rates during much of 2022. If it were an Olympic sport, it would be like hitting a target from 200 yards while on a horse at full gallop. The likelihood of a recession continues to increase as some of the economic data shows signs of slowing and the yield curve continues to flatten. The coming week will provide some color, as many of the Fed officials will be speaking and providing their views on monetary policy. The economic calendar is rather light heading into the final full week of the month and quarter. In the short-term, the geopolitical news may capture much of the headlines. Given the very fluid situation, markets could rise or fall by 2% or more, just as it has over the prior three months! The Fed and economic data will likely be the focus of the markets over the coming months, even as the war rages. Until and unless inflation falls in the months ahead, the Fed will be in the crosshairs and will have a much tougher job in the back half of the year.

The bounce of the year happened last week with little fanfare, as investors remained focused upon the geopolitical news and the Fed meeting. The 6% rise on the week was the best since late 2020 and came as the talks continued between Russia and Ukraine. Additionally, the Fed hiked rates, as expected, and will not be winding down their balance sheet. China even got into the act, as they provided some backstop to their falling markets and saw weekly gains of 10%. The news, while still not terrific, did not get worse. In the warped views of Wall Street, that is good news. The Fed didn't raise half of one percent as some expected. Russia, while still making slow gains in Ukraine, is talking about a cease fire. The much-maligned growth stocks even got a boost and put in their best week in over a year. The bazillion dollar question - is this bounce the start of a better long-term trend or just a bounce that suckers investors in for another roller coaster ride in the second quarter? While not entirely optimistic, we'll give the markets the benefit of the doubt for a few weeks.

There were a few mixed signals from the bond market over the past week. The yield curve got flatter, a signal that all is not well with the economy. However, the high yield market saw their yields come down relative to treasuries, which is indication investors are willing to take on risks. Over the last six months, the difference between high yield and treasury yields widened by 50%. It is one of the reasons for the poor performance of the stock market, as high yield bonds are often used as surrogates for stocks. The combination of generally wider spreads and flattening yield curve has been a recipe for poor equity performance over the following 1-2 years. So, while the timing of the next downturn is not certain, there is a growing weight of evidence that one will be showing up during that 1–2 year window.

Growth took back the performance mantle last week in a demonstrative way as investors sold off the formerly high-flying energy sector in favor of technology. The various modeling done on the sectors indicated that energy has certainly gotten "over bought" while the technology sector was "over sold" and some selling of the former and buying the latter was in store. Much like the overall market though, it will take some time to discern whether last week was a shooting star or something more substantial. There are a few big "if's" still in play for investors that are highlighted above. The outcome of the Fed rate hiking cycle is the foremost "if". If they can rein in inflation without dampening growth and employment, growth stocks can continue to do well. Investors have become very downbeat, with sentiment readings near multi-year lows. Historically, a bearish investor has already sold, and the next decision is when to buy.

The strong rally last week could continue well into this week. The Fed speaking circuit could provide investors with a bit more direction as to their intentions and expectations for further rate increases and economic growth.