March 17, 2021

Federal Reserve reaffirms ongoing policy stimulus and patience toward achieving goals

Key takeaways

- The U.S. Federal Reserve (Fed) reaffirmed its plan to maintain low interest rates and continue asset purchases for an extended period.
- The Fed reminded investors that inflation and employment data remain far from target, despite an improving economic outlook.
- Today's announcement is consistent with our positive outlook on the economy and for diversified portfolios, paired with expectations for modestly higher longer-term bond yields.

As expected, the Fed today held its target interest rates unchanged, near zero, following its regularly scheduled two-day meeting. The Fed maintained current accommodative (pro-growth) policies and remained consistent in its message that substantial economic progress is necessary before reducing or eliminating asset purchases. Our positive outlook for diversified portfolio returns remains intact based on fiscal and monetary policy stimulus, accelerating vaccination rollout and the potential for faster-than-expected reopening. Uncertainty remains in the form of COVID-19 variants and economic reopening. Some concerns have emerged that the economy could overheat, pushing long-term interest rates up too fast and jeopardizing the recovery. However, Fed Chairman Jerome Powell pushed back on this notion in today's press conference.

The Fed’s primary present challenge is to reconcile rapidly-improving economic expectations with its stated plan to keep policy accommodative for years. The Fed’s own quarterly update showed expectations of 6.5 percent growth in the gross domestic product in 2021 (up from 4.2 in December), 2.2 percent inflation (up from 1.8 in December) and the unemployment rate falling to 4.5 percent by year-end from the current 6.8 percent.

Fed members’ median projected path of interest rates (referred to as the “dot plot”) still indicates no rate hike through the end of 2023, although seven of the 18 members view a 2023 hike as appropriate, up from five in December. Four members believe a 2022 hike is appropriate, up from only one in December. However, Chairman Powell urged investors to avoid reading too much into the dot plot and said the Fed needs to see improvement in economic data rather than expectations before changing policy. He also repeated recent comments that the Fed would view any near-term rise in inflation as transitory rather than cause to change course, whether due to easy year-over-year comparisons or a short-term burst in activity following economic reopening.

Stocks finished the day higher after recovering from earlier losses. Shorter-term bond yields fell (prices rose) while longer-term bond yields were little changed after starting the day higher. The reverses came after Chairman Powell insisted changes in monetary policy likely remain far in the future. The 10-year Treasury yield has risen more than 0.70 percent year-to-date to above 1.60 percent, the highest it has been in 14 months.
Despite today’s volatile price action, we retain our glass half-full perspective on the capital market opportunity set ahead. The Fed’s ongoing policy support, significant fiscal policy support, and COVID vaccine progress outweigh uncertainty. However, we also remain vigilant to risks to our outlook and we will communicate any changes to our perspectives. As always, we value your trust and are here to help in any way we can. Please do not hesitate to let us know if we can help address your unique financial situation or be of assistance.

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