Federal Reserve remains cautiously optimistic while reaffirming ongoing policy stimulus

Key takeaways

- The U.S. Federal Reserve (Fed) reaffirmed its supportive monetary policy, maintaining low interest rates and continuing asset purchases.
- The Fed expressed optimism regarding improving economic data but reminded investors that inflation and employment remain far from its long-term target.
- Today’s announcement is consistent with our constructive outlook on the economy and for diversified portfolios, paired with expectations for modestly higher longer-term bond yields.

As expected, the Fed held its target interest rates unchanged near zero today following its regularly scheduled two-day meeting. The Fed noted the improving economic outlook but maintained current pro-growth policies, citing the need for further economic progress before reducing or eliminating asset purchases. Our positive outlook for diversified portfolios remains intact based on ongoing fiscal and monetary policy stimulus, accelerating vaccination rollout and reopening progress, while COVID variants and rising virus case growth remain key risks to our outlook.

During the press conference, Fed Chairman Jerome Powell noted that near-term price inflation is likely to be transitory, and the Fed’s written statement highlighted strengthening economic activity and improving employment conditions. While market-based inflation measures and survey data note rising prices in certain pockets of the economy, broad inflation measures such as the Consumer Price Index (CPI) do not yet reflect material structural price pressures. Furthermore, a gap of 8 million jobs remains between current and pre-pandemic employment, underscoring the economic progress necessary before reevaluating policy. Recent Fed meetings have delivered comparable and consistent messaging, with subtle shifts relating to an improving outlook.

The sequencing of unwinding the Fed’s accommodative policies likely involves first foreshadowing a slowdown in asset purchases and implementing a slowdown in asset purchases before eventually lifting interest rates. When questioned during the press conference, Chairman Powell said it was not time to begin talking about tapering (reducing) asset purchases. A recent Bloomberg survey indicates 45 percent of respondents expect an announcement in the fourth quarter this year. Analysts’ expectations for the Fed’s first rate hike generally range from late 2022 to 2024.

Stock prices as measured by the S&P 500 Index were slightly lower today, with the cyclically-sensitive Energy, Financials and Materials sectors modestly outperforming traditionally defensive sectors such as Health Care and Utilities. Meanwhile, Treasury yields fell slightly, meaning prices rose. The slight drop in yields occurred when Chairman Jerome Powell made it clear the Fed would continue its bond buying program at least at the current pace for now. The 10-year Treasury yield has risen more than 0.70%
percent year-to-date to above 1.60 percent currently, though is lower than the high near 1.78 percent from late March.

We retain our glass half-full perspective on the capital market opportunity set ahead. The Fed’s ongoing policy support, significant fiscal stimulus and COVID vaccination progress outweigh uncertainties including COVID variants and virus case growth outside the United States. However, we also remain vigilant to risks to our outlook and we will communicate any changes to our perspective. 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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Past performance is no guarantee of future results. All performance data, while obtained from sources deemed to be reliable, are not guaranteed for accuracy. Indexes shown are unmanaged and are not available for direct investment. The S&P 500 Index consists of 500 widely traded stocks that are considered to represent the performance of the U.S. stock market in general. The Consumer Price Index is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is one of the most frequently used statistics for identifying periods of inflation or deflation.

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