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# Fed leaves interest rates unchanged; reaffirms ongoing policy support

## Summary:

- The Federal Reserve (Fed) kept interest rates unchanged and Chairman Jerome Powell stated the Fed would “do whatever it takes for as long as it takes” to support the recovery.
- The Fed indicated it expects to keep rates near zero through 2022.
- Treasury and agency mortgage bond purchases will continue at least at their current pace, which reflects stronger guidance than investors expected.
- Today’s announcement is consistent with our “glass-half-full” view on the path forward.

As expected, the Fed held interest rates unchanged near zero today following its regularly scheduled two-day meeting. Chairman Jerome Powell reiterated the significant short- and medium-term risks they see to the economy, emphasizing the Fed will do “whatever we can and for as long as it takes” to promote the economic recovery. Chairman Powell did not announce any new initiatives, but highlighted the ongoing implementation of recent programs paired with the Fed’s willingness to use additional tools if needed. We anticipate the Fed will maintain a forceful accommodative policy stance for the foreseeable future.

The S&P 500 closed modestly lower, with growth stocks outperforming value and larger companies outperforming smaller. Treasury bond yields fell across maturities on the Fed’s commitment to maintain asset purchases and their plan to keep rates low for years.

Today’s announcement reiterated the Fed’s intention to keep rates near zero for an extended time, confirmed the plan to continue large-scale asset purchases to help keep borrowing costs low, and provided details regarding some program implementation. Treasury and agency mortgage bond purchases will continue “at least at the current pace” while corporate bond purchases are set to rise. Chairman Powell noted the Main Street Lending Facility directed at small- and medium-sized businesses will be up and running shortly. The Fed’s Summary of Economic Projections (SEP) indicates a cautious outlook in the near term that may warrant additional stimulus measures, with the gross domestic product projected to fall by 6.5 percent in 2020 before rebounding 5.0 percent in 2021. The Fed’s “dot plot,” which displays members’ expectations for interest rates in coming years, expresses the clear signal that they are unlikely to raise rates through 2022. Chairman Powell noted the viability of Treasury bond yield targeting by the Fed (referred to as yield curve control or yield caps) remains an open question. Japan, and more recently Australia, have implemented yield curve control as a means of keeping longer-term government bond yields low.

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Aggressive policy measures from the Fed, European Central Bank, Bank of Japan and others continue to support market liquidity, access to capital and investor confidence for the time being. Acute credit market stresses have subsided relatively quickly, with yield spreads (the difference between corporate bond yields and equivalent Treasuries) compressing from extremes to levels only somewhat above long-term norms and corporate debt issuance breaking records year-to-date. Strong issuance indicates companies can bridge the gap in damaged operating cash flows with debt issuance to bolster cash balances, at least for now. Most importantly, we continue seeing improvement in the number of COVID-19 cases and a job market that has begun the recovery process as economies reopen.

Recent market optimism appears justified based on improving virus and economic data, paired with the aggressive policy responses deployed across the globe. Companies have access to capital and are hiring, consumers are transitioning to more normal life activities, and the medical concept of gradual improvement and repair over time continues. However, risks certainly remain. First, virus resurgence is a significant unknown; while the medical and scientific community are making progress, we do not have a cure or vaccine. The virus's path could change as social distancing measures relax, resulting in a resurgence in case growth. Second, while most global equity markets are below where they started this year, recent performance has been aggressive. While the data and policy landscape suggests a more positive future, the risks of ebbs and flows with companies, consumers and eventual stimulus withdrawal could mean recent enthusiastic investor sentiment has been overdone. With those risks in mind, we continue to lean toward a glass-half-full outlook.

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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