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# Federal Reserve maintains accommodative policy while foreshadowing asset purchase reductions

## Key takeaways

- The U.S. Federal Reserve (Fed) reaffirmed supportive monetary policy, maintaining low interest rates but stating that a gradual reduction in its asset purchase program, or tapering, “may soon be warranted.”
- We anticipate the Fed may announce a tapering timeline at its next regularly scheduled meeting on November 3, with Chairman Jerome Powell noting purchases may conclude around mid-2022. Policymakers’ expectations for the first interest rate hike are split between 2022 and 2023.
- Today’s announcement is consistent with our positive outlook on the economy and diversified portfolios. Policymakers retain significant optionality to slow down or speed up policy normalization as economic data evolves.

The Federal Reserve (Fed) maintained accommodative monetary policies of low interest rates and asset purchases following the conclusion of its regularly scheduled two-day meeting, but laid the groundwork for the gradual removal of monetary policy stimulus. The Fed indicated reducing monthly asset purchases “may soon be warranted” if economic progress continues, with asset purchases concluding “around mid-2022.”

Policymakers also accelerated their expectations around the timing and pace of rate hikes, though expectations among voting members reflect a wide range of potential outcomes. Half of the Fed’s members anticipate an initial rate hike in 2022, with the median expectation in 2023, somewhat sooner than indications from pre-meeting interest rate markets. Our positive outlook for diversified portfolios remains intact based on economic reopening progress and supportive corporate fundamentals. Coronavirus impacts on the pace of economic and earnings growth, an inflationary trend that may prove to be sustained versus temporary, and tax and spending changes remain risks to our view.

Small- and mid-sized domestic equities, along with emerging markets and economically sensitive sectors like Energy and Financial Services stocks led riskier asset prices higher. The S&P 500 Index representing larger U.S. companies rose as well, though is still 3 percent below all-time highs hit earlier this month. Treasury yields increased slightly for maturities of less than 10 years in anticipation of a slightly faster pace of rate hikes in coming years. Longer-term bond yields fell slightly. The 10-year Treasury bond currently yields 1.32 percent, up from 0.92 percent at the beginning of the year but down from the 2021 high near 1.76 percent in March.

Slowing bond purchases around year-end would allow the Fed to retain the option to increase its target federal funds rate in mid- to late- 2022 if economic conditions warrant, though 2023 remains a reasonable possibility as

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well. Fed committee member rate hike expectations vary widely, with members split on whether a rate hike will be appropriate in 2022. Members' year-end 2023 policy rate expectations range from 0.25 percent to 1.75 percent, highlighting the uncertain nature of the economic recovery. The pace of policy normalization will hinge on the evolution of growth, inflation and employment. The committee's economic projections show downgraded median growth expectations for 2021 but a modest upgrade for 2022, in contrast to an increase in 2021 and 2022 inflation expectations.

Our investment outlook remains "glass half-full" regarding the forward prospects for diversified portfolios. Rising earnings, continued reopening progress and accommodative central banks support our near-term outlook. We continue to encourage investors to retain a multi-year, multi-cycle perspective, being mindful of recent events but focusing on two key investment horizons: First, the current reopening activity around the globe and countries' variable speeds and glidepaths as they emerge and second, the steady state that follows and how sustainable growth may be throughout that second horizon.

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.

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