

JANUARY 22, 2021



Paige Wilhelm
*Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling*

Fed in no hurry

Cash managers' attention is focused on the first Federal Open Market Committee (FOMC) meeting of the new year, which takes place this week. The statement will be released Wednesday afternoon. With zero chance of any change in the range of the federal funds range, the most interesting element might be a confirmation of the indications several key FOMC members—Fed Chair Powell, Vice Chair Clarida and Governor Brainard—made in recent speeches that the Fed is in no hurry to reduce its asset purchases.

Clarida said he does not currently expect to taper purchases before 2022. Brainard said she does not expect it to be appropriate to reduce purchases for “quite some time.” And Powell stressed that “the economy is far from our goals.” Powell also reiterated his commitment to the Fed’s new framework, which seeks 2% average inflation over time, and that we need to be “careful not to exit too early.” Given the prominence of these FOMC officials and the directness of their communications, a more hawkish monetary policy stance is likely not in the cards for 2021. But we are optimistic about economic growth this year and would not be surprised if the alignment of fiscal and monetary policy nudged inflation up.