

MAY 21, 2021



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

Burying the lead

The markets are vigilantly watching for two major Federal Reserve policy shifts: the raising of the fed funds rate and the tapering of monthly purchases of government securities. Actually, everyone is looking even for small signs it might make these changes. With the importance of forward guidance, those will come ahead of any action.

As usual, the policymakers made things as clouded as they could in the minutes to the April Federal Open Market Committee meeting released last week. Tapering was mentioned, but not until page 10, and in the middle of a paragraph, no less.

“A number of participants suggested that if the economy continued to make rapid progress toward the Committee’s goals, it might be appropriate at some point in upcoming meetings to begin discussing a plan for adjusting the pace of asset purchases.”

Well, that is only a hint of a hint. But it is good news, especially for cash managers. If the Fed reduces its presence in the secondary market, supply of Treasuries should increase, which could potentially alleviate pressure on the front end of the yield curve. Let’s hope that we get more definite guidance soon.