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Weekly Commentary

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Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

Fed calling the shots, for now

It appears the Federal Reserve has brought out its carrot on a stick. Whether through the Federal Open Market Committee (FOMC) meetings or Chair Jerome Powell's press conferences, the Fed is beginning—just beginning, mind you—to guide the markets with the promise of decreasing the amount of its monthly buying of Treasury and mortgage-backed securities on the open market. The latest talk came last week when Philadelphia Fed President Patrick Harker said, "I think it is appropriate for us to slowly, carefully move back on our purchases at the appropriate time. When that is, that is something we need to start discussing."

Talk about hedging. But our Fed Speak translator says statements like this show the Fed will taper these purchases, now at $120 monthly, before it raises rates. And the FOMC meeting next week might hint that the process will be announced later this year. The Fed continues to end some of its emergency facilities created to keep markets operating when the pandemic began (last week it said it will soon sell its holdings of corporate bonds and exchange-traded funds). Looks like officials want to wrap everything up before addressing rates.

The question is, will the economy afford policymakers the time they desire? The jobs report on Friday revealed the unemployment rate fell to 5.8% and nonfarm payrolls grew by robust 559,000 jobs in May. If the labor market heals to the point of getting hot, the Fed might have to talk more—this time about raising rates.

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