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Weekly Commentary

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Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

Nothing is a lock

The Federal Open Market Committee meeting last week said little about today and a lot about the future.

It did not take any action on interest rates, and according to it Summary of Economic Projections and accompanying "dot plot," we will be repeating that phrase for some time. Federal Reserve officials now forecast that not until 2023 will the U.S. see core PCE inflation at 2%. The Fed's recent update of its monetary policy framework, released at the virtual Jackson Hole conference in August, states that getting to 2% will not mean policymakers will automatically start raising rates. Instead, they will make sure that there is scant slack in the labor market, even if it means that inflation exceeds the target temporarily.

Based on its projection that the unemployment rate won't get to 4% until 2023, we aren't likely to see an increase in the fed funds target range from the current 0-0.25% for some time. However, four committee participants expressed that rates could be higher by then, so it is important to remember this forward guidance is so down the road that much can happen.

Just look at this year. While some scientists and epidemiologists (not to mention Hollywood) have been predicting the likelihood of global pandemics for many years, no one could have known the disruption Covid-19 has brought. So while guidance and honesty from the Fed is important, we shouldn't get too wrapped up in what could happen. For instance, while the economic recovery has been uneven and remains fragile, think of how off-the-mark the FOMC was in its forecast in June that 2020 gross domestic product would decline 6.5%. At the meeting last week it revised that positively by almost half, to a decline of 3.7%. Anything can happen.

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