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Cautious Fed to Hold Rates at Zero Through 2022

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The Fed's policy-making committee emerged from its scheduled two-day meeting this afternoon with little new to add to its April meeting statement. The key phrase was that the economy still faces "considerable risks."

With the overnight target already at zero at its lower range, and negative rate policy dismissed, there was no change announced in the funds rate. In the first dot plot/interest rate forecast since December, committee members indicated the overnight target would remain *zero bound* through at least 2022. In his post-meeting press conference, Powell reiterated that the FOMC is "not even thinking about raising rates."

- The Fed's updated economic projections were interesting. In particular, the committee expects a -6.5% decline in GDP for 2020, which implies a fairly substantial second-half rebound in economic growth, followed by GDP gains of +5.0% in 2021 and +3.5% in 2022.
- The Fed's forecast for unemployment shows a 9.3% rate at the end of 2020, declining to 6.5% in 2021 and 5.5% in 2022.
- The inflation outlook is expected to follow a similar path to GDP, with the PCE core growth rate dropping to +1.0% in 2020 before climbing to +1.5% and +1.7% over the following two years.

Although the Fed did not mention yield curve control, the committee did put a floor under its asset purchases, committing to buy $80 billion in Treasuries and $40 billion in mortgage-backed securities monthly.

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Notes from the post meeting press conference suggested the Fed remains cautious and would like to see Congress continue to spend. Other key takeaways include:

- Powell says "there's work to be done repairing the labor market which will require Congress to help," and stressed that "we can't draw any conclusions from the May labor report."
- "The Fed has lending powers, not spending powers. Additional fiscal support may be needed."
- "If there were more fiscal support, you'd see better results sooner."
- "The Fed is committed to using its full range of tools," and "will put these emergency tools back in the tool box …when the crisis has passed."
- Powell "expects to see full economic recovery over time."
- Powell cautioned that "there is a high level of uncertainty over the forecasts."
- The Fed is strongly considering expansion of the Main Street lending program to include nonprofits.
- Main Street lending should begin any day.
- "A good number of Americans won't likely have jobs to go back to for years."
- "The virus still poses considerable risks."
- "The path for the economy will rely heavily on the path of the virus."
- "The next few months will tell the real story."

Today's news was far from earth-shattering, but it does clearly indicate extreme caution by the Fed, along with their intent to continue providing enough support to get the economy back on track.

The Fed's forecast for unemployment shows a 9.3% rate at the end of 2020, declining to 6.5% in 2021 and 5.5% in 2022.

Please see disclosure on page 2.

Market Indications as of 4:00 P.M. Central Time

DOW	DOWN 282 to 26,990 (HIGH: 29,551)
NASDAQ	UP 67 to 10,020 (NEW HIGH)
S&P 500	DOWN 17 to 3,190 (HIGH: 3,386)
1-Yr T-bill	current yield 0.17%; opening yield 0.17%
2-Yr T-note	current yield 0.17%; opening yield 0.20%
5-Yr T-note	current yield 0.31%; opening yield 0.40%
10-Yr T-note	current yield 0.73%; opening yield 0.82%
30-Yr T-bond	current yield 1.51%; opening yield 1.58%