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The Fed Pledges Continued Support (Again)

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This afternoon, at the conclusion of the two-day July FOMC meeting, Fed officials left the overnight fed funds rate unchanged at 0.00%-0.25%. The Fed also pledged to keep monthly QE asset purchases at, or above the current rate over the coming months. With treasury-note yields at fresh lows along most of the curve, the committee saw no need for additional forward guidance. In the press conference that followed, Chairman Powell reiterated the Fed is committed to using all of its tools to prevent further damage to the economy. Stocks rallied on the news that the Fed will continue to support the markets.

Press conference highlights:

- The resurgence in new virus cases are beginning to weigh on economic activity
- A full recovery is unlikely until people feel safe
- The course of the virus will drive the economy
- Business investment has yet to show a recovery
- The Fed hasn't done as much lending as had been thought
- Loans that are difficult to repay may not be the answer for many businesses
- Additional support from congress may be needed
- Powell referred to the virus as "the biggest shock to the U.S. economy in living memory"
- The downturn has disproportionately affected low income workers; inequality is a serious economic problem for the U.S.
- Recent data is pointing to a slowing in the pace of the recovery
- The Fed is more likely to struggle with *deflation* than inflation for quite some time
- Not even thinking about raising rates

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The takeaway is that Fed officials are in a wait-and-see mode, sensing we're back at a crossroad. Powell continues to press congress for additional support for both businesses and individuals. He is also convinced the Fed has ample tools and capacity to provide liquidity to the markets. His message was well received by the markets.

Yesterday, the Fed extended seven of its nine emergency lending programs by three months until the end of the year. These programs, designed as liquidity backstops, have been used sparingly relative to capacity with all Fed liquidity facilities totaling $147 billion for the week ending July 20th.

In related news, the average 30-year fixed mortgage rate for the week ending July 23 was 3.01%, just three basis points above the all-time low from the previous week. The 15-year fixed rate average was 2.54%, six bps above its record low of last week. Despite historically low lending rates, the Mortgage Bankers Association (MBA) reported overall mortgage loan applications fell -0.8% during the week ending July 24, following a +4.1% increase the previous week. New home applications fell by -1.5% for the week, while refi applications dropped -0.4%. Although the housing market has recently rebounded, the surge could be short-lived if tens of millions of Americans remain jobless.

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Please see disclosure on page 2.

Market Indications as of 3:25 P.M. Central Time

DOW	Up 160 to 26,540 (HIGH: 29,551)
NASDAQ	Up 140 to 10,542 (HIGH: 10,767)
S&P 500	Up 40 to 3,258 (HIGH: 3,386)
1-Yr T-bill	current yield 0.12%; opening yield 0.12%
2-Yr T-note	current yield 0.13%; opening yield 0.14%
5-Yr T-note	current yield 0.25%; opening yield 0.26%
10-Yr T-note	current yield 0.58%; opening yield 0.58%
30-Yr T-bond	current yield 1.24%; opening yield 1.22%