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Fed Announces Shift in Inflation Policy

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It was widely expected (and generally thought to be the case anyway), but this morning at the annual Jackson Hole Economic Policy Symposium, Fed Chairman Powell made it official: *The Fed will allow inflation to move moderately above its 2% target "for some time."* Historically, the Fed has hiked the overnight funds rate when core inflation threatened to rise above its 2% target. It's been more than 12 years since core Personal Consumption Expenditures (PCE) has been above +2.1% on a year-over-year basis, and 28 years since it climbed above +3.0%. With core PCE now below +1.0% for the last three months, Fed officials would gladly welcome a rise in price pressure.

Inflation typically increases as the economy strengthens. When the Fed raises rates, it does so to slow economic growth and by extension, stem price pressures. Today's announcement suggests that economic growth will not be suppressed as quickly, meaning the Fed could be on hold for a much longer period of time. With the announcement, many experts now believe the FOMC will hold the funds rate zero-bound for at least another five years. The last time the Fed adopted a zero rate policy (December 2008), it was in place for a full seven years and the initial rate increases from the bottom were in tiny steps.

In other news this morning, initial jobless claims were 1.0 million for the week ending August 22nd. Although the weekly number of first-time filings for unemployment benefits has decreased sharply since peaking the last full week in March at almost 6.9 million filings, the weekly total has been above the million mark all but one week since mid-March. By contrast, in January and February, the pre-pandemic weekly total averaged just 215k. Continuing claims (the total number of Americans receiving ongoing state unemployment benefits) dropped from 14.8 to 14.5 million for the week ending August 15th. According to the U.S. Department of Labor, the total number of persons receiving unemployment benefits through state and federal programs was 27 million as of August 8th, down from 28 million the previous week.

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The equity market, in theory, should embrace the new Fed policy and the idea that rates will be lower for longer, but stocks have been mixed most of the day. Bonds yields are predictably higher on the long end of the curve with the possibility of higher future inflation, while short bond yields are flat in expectation of a more patient Fed.

Market Indications as of 1:30 P.M. Central Time

DOW	Up 263 to 28,591 (HIGH: 29,551)
NASDAQ	Up 1 to 11,666 (NEW HIGH)
S&P 500	Up 10 to 3,489 (NEW HIGH)
1-Yr T-bill	current yield 0.12%; opening yield 0.12%
2-Yr T-note	current yield 0.15; opening yield 0.15%
5-Yr T-note	current yield 0.31%; opening yield 0.29%
10-Yr T-note	current yield 0.74%; opening yield 0.69%
30-Yr T-bond	current yield 1.49%; opening yield 1.41%

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Please see disclosure on page 2.