

## Minutes to the June FOMC Meeting Signal Patience

The minutes to the June 16 Fed meeting showed committee members (as expected) have begun discussing the appropriateness of scaling back QE asset purchases, but little more. There was no action plan and no specific dates mentioned. Committee members would like to see the broad economy achieve “substantial further progress” before actual tapering begins.

Several committee members mentioned the economy was “a long way” from achieving the FOMC’s primary goal of maximum employment. Although recent payroll gains may have fallen short of expectations, members generally expect conditions to improve in the coming months as unemployment benefits expire and schools reopen.

Several committee members mentioned upside risk to inflation in the short run if labor shortages and supply chain disruptions persist, while others mentioned downside risks associated with a “reverse base effect” next year. On the whole, inflationary pressure is still seen as temporary. In fact, Fed economists expect the annual inflation rate to fall back below +2.0% next year before climbing back toward the target.

There was some discussion over a standing repo facility to provide a permanent liquidity source that could be tapped as needed during periods of market turmoil. A number of temporary repo facilities were introduced last year, whereby various security types could be exchanged for cash with the Fed. A permanent facility would add stability and better prepare the markets for the next unforeseen event.

The bond market has rallied much of the day, so it isn’t all about the FOMC minutes. Investors have come to the conclusion that the Fed will be patient as promised. The more time that goes by without a change in monetary policy, the less urgency to act. The 30-year Treasury bond dipped below 2.0% yesterday for the first time since February, and at 1.94% is now more than 50 basis points below the recent high point of 2.45% on March 18th. With the Fed’s preferred inflation measure at its highest level in three decades, the continued retreat in long bond yields speaks volumes on the market’s long range outlook.

The next FOMC meeting is July 27-28, but most economists are eyeing the September 21-22 meeting as the more likely timeframe for a more concrete taper announcement. Between now and then, the market will have digested both the July and August employment reports along with multiple inflation measures. Whenever tightening does begin, the pace is likely to be quite gradual and the path not always straight.

*Scott McIntyre, CFA*

*HilltopSecurities Asset Management  
Senior Portfolio Manager  
Managing Director  
512.481.2009  
scott.mcintyre@hilltopsecurities.com*

*Greg Warner, CTP*

*HilltopSecurities Asset Management  
Senior Portfolio Manager  
Director  
512.481.2012  
greg.warner@hilltopsecurities.com*

*Several committee members mentioned upside risk to inflation in the short run if labor shortages and supply chain disruptions persist, while others mentioned downside risks associated with a “reverse base effect” next year.*

*The bond market has rallied much of the day, so it isn’t all about the FOMC minutes. Investors have come to the conclusion that the Fed will be patient as promised.*

## Market Indications as of 2:55 P.M. Central Time

DOW	Up 119 to 34,697 (HIGH: 34,786)
NASDAQ	Up 5 to 14,669 (NEW HIGH)
S&P 500	Up 17 to 4,360 (NEW HIGH)
1-Yr T-bill	current yield 0.06%; opening yield 0.06%
2-Yr T-note	current yield 0.22%; opening yield 0.22%
3-Yr T-note	current yield 0.40%; opening yield 0.41%
5-Yr T-note	current yield 0.78%; opening yield 0.80%
10-Yr T-note	current yield 1.32%; opening yield 1.35%
30-Yr T-bond	current yield 1.94%; opening yield 1.98%

*The paper/commentary was prepared by Hilltop Securities Asset Management (HSAM). It is intended for informational purposes only and does not constitute legal or investment advice, nor is it an offer or a solicitation of an offer to buy or sell any investment or other specific product. Information provided in this paper was obtained from sources that are believed to be reliable; however, it is not guaranteed to be correct, complete, or current, and is not intended to imply or establish standards of care applicable to any attorney or advisor in any particular circumstances. The statements within constitute the views of HTS and/or HSAM as of the date of the document and may differ from the views of other divisions/departments of affiliates Hilltop Securities Inc. In addition, the views are subject to change without notice. This paper represents historical information only and is not an indication of future performance. Sources available upon request.*

*Hilltop Securities Asset Management is an SEC-registered investment advisor. Hilltop Securities Inc. is a registered broker-dealer, registered investment adviser and municipal advisor firm that does not provide tax or legal advice. HTS and HSAM are wholly owned subsidiaries of Hilltop Holdings, Inc. (NYSE: HTH) located at 717 N. Harwood St., Suite 3400, Dallas, Texas 75201, (214) 859-1800, 833-4HILLTOP.*