Minutes to the June FOMC Meeting Signal Patience

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

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.

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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.

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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%