

Fed Stands Pat; Powell Dodges GameStop Question

In the official statement released this afternoon at the conclusion of the two-day FOMC meeting, Fed officials acknowledged that the pace of economic recovery has *moderated* along with employment. All rate targets were unchanged and the pace of QE asset purchases will continue at \$120 billion per month until *substantial further progress has been made on the Fed's inflation and employment objectives*. The Fed did mention that the virus poses considerable risks to the economic outlook. The committee also mentioned the vaccine for the first time, saying the path of the economy will depend significantly on the course of the virus, *including progress on the vaccine*.

In Powell's post-meeting press conference he noted:

- Widespread vaccine distribution will enable us to put the pandemic behind us.
- The economic downturn has been unequal among Americans, disproportionately impacting low-income workers and minorities.
- ...we're a long way from normal with millions of Americans still unemployed.
- The Fed's monetary policy will play a key role in resolving the crisis.
- It will likely take "some time" before the Fed meets its goals.
- Bond purchases will continue until substantial progress is made.
- Declined to comment on a question about the short-squeezing of GameStop stock.
- Believes vaccines and expectations for additional fiscal policy are driving equities, *not the Fed's easy money policy*.
- Powell has already had his first vaccine shot.
- The Fed expects to see a temporary rise in inflation in the coming months...but will remain patient.

It does not sound like the Fed is in any hurry to hike rates or curb QE. The Fed's downbeat tone reiterates what Powell has been saying for months: *additional fiscal policy is appropriate*.

The overall stock market was already down, but the Fed meeting pushed the major indexes lower. This is odd since Powell indicated the Fed is likely to maintain very accommodative policy for the foreseeable future.

Related note: Powell was asked several times about individual stock movement. For anyone who got up late, the financial story of the day is GameStop (Ticker: GME). The *heavily-short*ed stock that was trading around \$17 when the year began, reached an intraday high of \$380 today. GameStop has been widely promoted on Reddit and a huge favorite of the younger Robinhood investor base. GME, which has a book value of \$5, is not the only odd stock making waves on an otherwise down day. AMC Entertainment, which issued over \$900 million in equity and debt to *stave off* bankruptcy, had skyrocketed 500% at one point today from yesterday's close of \$4.96

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 path of the economy will depend significantly on the course of the virus, including progress on the vaccine

It does not sound like the Fed is in any hurry to hike rates or curb QE. The Fed's downbeat tone reiterates what Powell has been saying for months: additional fiscal policy is appropriate.

to an intraday high of \$20.36. AMC is also heavily shorted. The Wall Street Journal has described the wild trading as “a gladiator match between chatroom-driven day traders and Wall Street shorts.” At this point, Wall Street is losing the battle.

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

DOW	Down 629 to 30,308 (HIGH: 31,188)
NASDAQ	Down 346 to 13,279 (HIGH: 13,636)
S&P 500	Down 112 to 3,737 (HIGH: 3,855)
1-Yr T-bill	current yield 0.08%; opening yield 0.08%
2-Yr T-note	current yield 0.12%; opening yield 0.12%
5-Yr T-note	current yield 0.41%; opening yield 0.41%
10-Yr T-note	current yield 1.01%; opening yield 1.04%
30-Yr T-bond	current yield 1.78%; opening yield 1.79%

The paper/commentary was prepared by Hilltop Securities (HTS). 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 as of the date of the document and may differ from the views of other divisions/departments of affiliate 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. This material has not been prepared in accordance with the guidelines or requirements to promote investment research, it is not a research report and is not intended as such. Sources available upon request. For informational purposes only and not a recommendation to buy, sell, or hold any security.

Hilltop Securities Inc. is a registered broker-dealer, registered investment adviser and municipal advisor firm that does not provide tax or legal advice. HTS are wholly owned subsidiaries of Hilltop Holdings, Inc. (NYSE: HTH) located at 1201 Elm Street, Suite 3500, Dallas, Texas 75270, (214) 859-1800, 833-4HILLTOP