

## Powell's Q&A Indicates QE Taper to Conclude Next Summer

The official statement released at the conclusion of the September FOMC meeting held few surprises, but Powell's post meeting press conference was unexpectedly revealing. The key statement released immediately after the meeting was "a moderation in the pace of asset purchases may soon be warranted" ...assuming progress continues to be made on the Fed's employment and inflation goals. This was vague, and mirrored dozens of comments made by Powell and other Fed officials in recent months. However, Powell later told reporters that many committee members believe the "substantial further progress toward our goal" test had already been met. He went on to target mid-2022 as the end point for asset purchases, and added that there was very broad support among committee members on both the timing and pace of the taper ...implying those decisions have already been made. Powell also reiterated that the FOMC would not begin raising rates until the taper is complete.

The updated dot plot showed members had stepped up their rate forecasts, with an even 9-9 split among 18 committee members as to whether the initial rate hike occurs before the end of 2022. (At the June FOMC meeting, there were seven members expecting a hike in 2022.) Forecasts for the end of 2023 and 2024 are all over the board, although just a single member now expects the overnight target to hold steady into 2024. The dot plot indicates a median forecast of 1.0% by the end of 2023 and 1.8% by the end of 2024. (This assumes a straight path forward with no unexpected events derailing the plan.)

The committee's unemployment rate forecast for the end of 2021 was lifted from +4.5% to 4.8%, while the end of year forecasts for 2022 and 2023 held steady at +3.8% and +3.5%. Powell sees very strong labor demand, and expects faster gains in employment as the virus is contained. The September employment report (released next Friday) should fine-tune the start date for the initial taper. Strong payroll gains would presumably support an announcement at the next FOMC meeting in November.

The 2021 year-end inflation forecast was boosted from +3.4% to +4.2%, while the 2022 forecast increased from +2.1% to +2.2% and 2023 held steady at +2.2%. In the Q&A, Powell did not sound overly concerned about elevated inflation, pointing to bottlenecks in supply chains lasting longer than expected, but ultimately believing the Fed would meet its +2.0% long range goal.

Committee members lowered their GDP forecast from +7.0% to +5.9% for all of 2021, while increasing their 2022 growth forecast from +3.3% to +3.8% and 2023 from +2.4% to +2.5%.

The FOMC also increased its counterparty limits for its reverse repo facility from \$80 billion to \$160 billion easing pressure on short-term market yields by providing money funds and eligible financial institutions with additional capacity. This program

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*Powell went on to target mid-2022 as the end point for asset purchases, and added that there was very broad support among committee members on both the timing and pace of the taper implying those decisions have already been made.*

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has already swelled to nearly \$1.3 trillion and with the debt ceiling impasse limiting investment options, volume is expected to increase in the weeks ahead.

The Treasury markets were relatively calm after release of the initial statement, but Powell's very clear message during the Q&A indicating the taper would wrap-up by the middle of next year prompted a sell-off on the short end of the curve. Surprisingly, the long end has rallied on the day, with the 10-year Treasury yield back down to 1.30% and the 30-year at 1.82%. *Apparently, investors have faith in the Fed's ability to rein-in inflationary pressure over time.*

Finally, Powell weighed in on the crypto question, saying the committee was considering whether the government should issue its own digital currency in order to maintain system stability and regulatory protections. There are likely to be follow-up questions to Fed members on the crypto issue going forward.

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## Market Indications as of 3:26 P.M. Central Time

DOW	Up 338 to 34,258 (HIGH: 35,625)
NASDAQ	Up 150 to 14,897 (HIGH: 15,374)
S&P 500	Up 41 to 4,396 (HIGH: 4,537)
1-Yr T-bill	current yield 0.07%; opening yield 0.06%
2-Yr T-note	current yield 0.24%; opening yield 0.22%
3-Yr T-note	current yield 0.49%; opening yield 0.45%
5-Yr T-note	current yield 0.85%; opening yield 0.82%
10-Yr T-note	current yield 1.30%; opening yield 1.31%
30-Yr T-bond	current yield 1.82%; opening yield 1.85%

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