

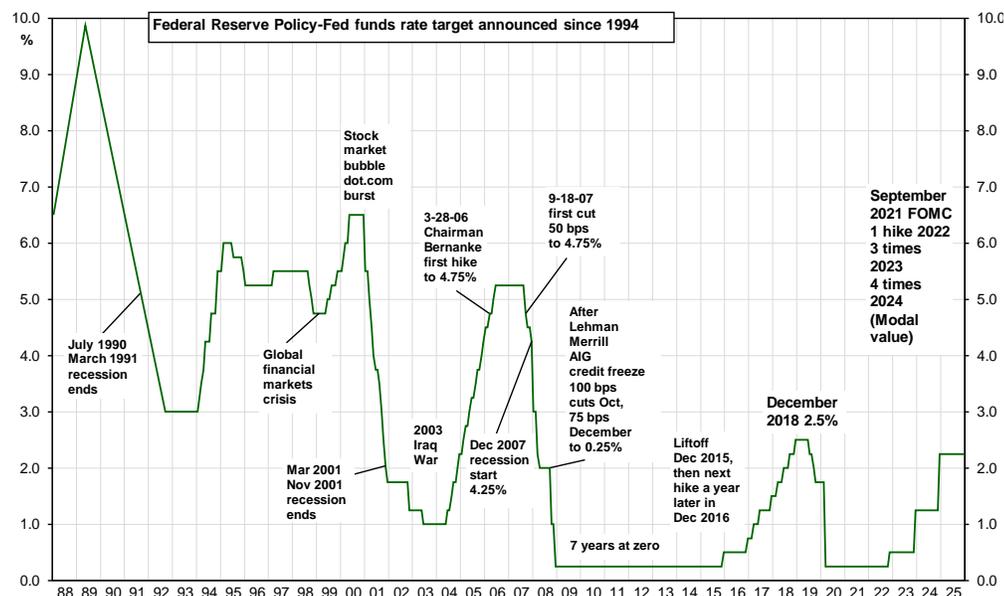
# Financial Markets This Week

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Christopher S. Rupkey, CFA  
Chief Economist  
crupkey@fwdbonds.com

## NOT SOON ENOUGH IF YOU WERE WAITING FOR TAPER

The Federal Reserve met this week and issued a statement. They added a sentence and put the magic word “soon” in there to let the markets know tapering was coming and the details will be released after the November 2-3 meeting. That’s a long time to drip-drip, water-torture wait for policymakers to stop flooding the markets with superfluous liquidity which is no longer



necessary with the recession having officially ended way back in April 2020. The Fed continues to tell markets that the emergency \$120 billion monthly QE purchases “help foster smooth market functioning and accommodative financial conditions, thereby supporting the flow of credit to households and businesses.” Makes one wonder what they would do if the stock market tanked when tapering moves from “soon” to becoming a reality on November 3 when they issue another communique. They have hitched their star to the stock market’s fortunes and if the stock market loses, then financial conditions won’t be as accommodative.

### September 22, 2021 Press Statement

...until substantial further progress has been made toward its maximum employment and price stability goals. Since then, the economy has made progress toward these goals, and the Committee will continue to assess progress in coming meetings. If progress continues broadly as expected, the Committee judges that a moderation in the pace of asset purchases may soon be warranted.

### July 28, 2021 Press Statement

Last December, the Committee indicated that it would continue to increase its holdings of Treasury securities by at least \$80 billion per month and of agency mortgage-backed securities by at least \$40 billion per month until substantial further progress has been made toward its maximum employment and price stability goals. Since then, the economy has made progress toward these goals, and the Committee will continue to assess progress in coming meetings.

Okay, the economy isn't ready for Fed officials to stop the printing presses, so what about interest rate hikes? Well for the first time a majority see one rate hike of 25 bps by the end of 2022. That's progress if you are living on a fixed income like babyboom retirees who can't put all their savings in the stock market unless they have the courage to watch their money drop 5% like it did the last couple of weeks. Anyway, when they met in June just 7 out of 18 said rates would go up at least once by the end of next year, now at the September meeting the forecasts show 9 out of 18 see rates going up at least once by the end of 2022... wait a minute, that's not a resounding majority. The committee sure stays close to the Chairman's view of the risks where the risks are higher if you do something and the risks are lower if you don't take any action.

Net, net, the economy has shown measurable progress in getting America back to work, but conditions are not as good as Fed officials would like so they will stay the course for another couple of months and hold out the promise of a tapering announcement at their next meeting if the economy improves further as they expect will be the case. Fed officials may be over analyzing the economy and how much gas is needed as they forget that starting to taper their asset purchases will also send a strong signal that policymakers are confident that the economy is doing better and their confidence could translate into an improved outlook for both consumers and business leaders. Stay tuned. Our next story update as the world turns will be on November 3. Wait for it.

Notes: The Fed funds rate graph above uses the modal value for the Fed forecasts where a consistent, noisy group of six policy makers out of the eighteen see one rate hike by the end of 2022 to 0.50%, three more rate hikes to 1.25% at the end of 2023, and four more rate hikes at the end of 2024. The other thing we learned this week is that Powell is suggesting the QE taper of the \$80 billion monthly purchases of U.S. government securities will finish up by the middle of next year which is a faster pace than the Bernanke tapering of \$45 billion monthly QE purchases of U.S. government securities announced December 2013 which took about a year to complete.

Fed Policy-key variables					Long Term
	2021	2022	2023	2024	
Fed funds	0.1	0.3	1.0	1.8	2.5
PCE inflation	4.2	2.2	2.2	2.1	2.0
Unemployed	4.8	3.8	3.5	3.5	4.0
GDP	5.9	3.8	2.5	2.0	1.8
September 2021 median Fed forecasts					

Fed Individual Forecasts				
Fed funds rate at year-end				Longer
Votes	2022 End	2023 End	2024 End	run
1	0.125	0.125	0.625	2.000
2	0.125	0.375	0.875	2.250
3	0.125	0.375	0.875	2.250
4	0.125	0.375	0.875	2.250
5	0.125	0.375	1.125	2.250
6	0.125	0.625	1.125	2.375
7	0.125	0.625	1.125	2.500
8	0.125	0.625	1.625	2.500
9	0.125	0.875	1.625	2.500
10	0.375	1.125	1.875	2.500
11	0.375	1.125	2.125	2.500
12	0.375	1.125	2.125	2.500
13	0.375	1.125	2.125	2.500
14	0.375	1.125	2.125	2.500
15	0.375	1.125	2.125	2.500
16	0.625	1.625	2.125	3.000
17	0.625	1.625	2.375	3.000
18	0.625	1.625	2.625	
Median	0.250	1.000	1.750	2.500
Meeting	Sep 22	Sep 22	Sep 22	Sep 22

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