Trend Macrolytics, LLC
Donald Luskin, Chief Investment Officer
Thomas Demas, Managing Director
Michael Warren, Energy Strategist

TRENDMACRO LIVE!

On the June FOMC

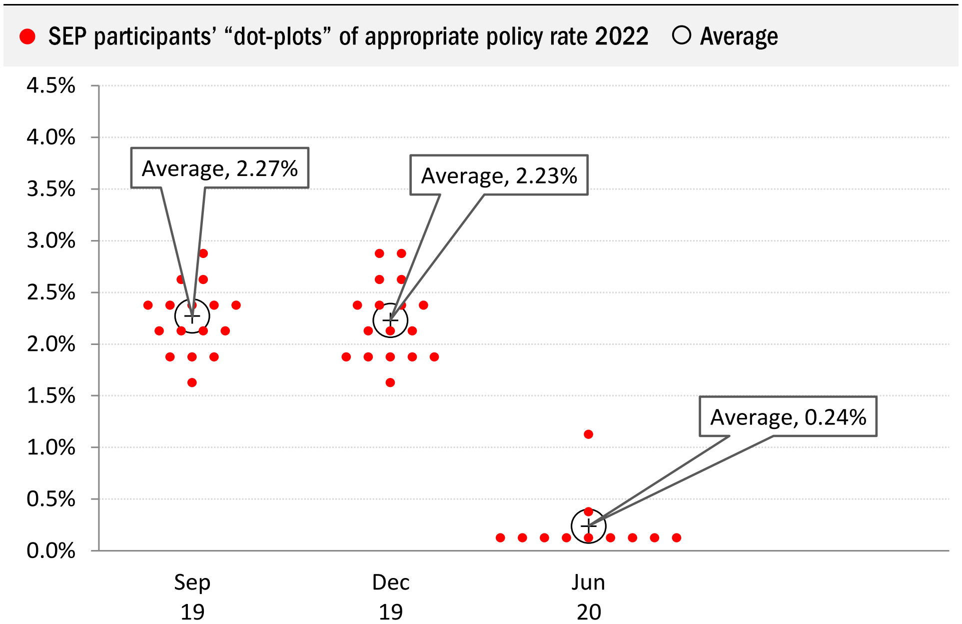
Wednesday, June 10, 2020

Donald Luskin

A big nothing. And nothing new from the Fed is the right thing to keep confidence strong.

It's probably a good thing for confidence – and policy – that there was substantially nothing new in today's statement. In April's statement the FOMC said, "The disruptions to economic activity here and abroad have significantly affected financial conditions and have impaired the flow of credit to U.S. households and businesses." Now it's "Financial conditions have improved, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses" (for the full red-line, see "Data Insights: Federal Reserve" June 10, 2020). *OK, so the FOMC is patting itself on the back a little. After a 47% rally off the lows in March when they first announced their rescue package, they've earned it* (see "On the Fed's Massive Intervention" March 23, 2020).

- Other than a couple trillion in new Treasuries and MBS, and about half a trillion in swap-lines with other central banks, most of *the Fed's sweeping new programs barely have any takers yet* (for a view of the structure of the Fed's new balance sheet, see "Data Insights: Federal Reserve" June 10, 2020). *So why aggravate uncertainty by introducing new policies – such as much-discussed "yield curve control" – until there's some evidence that something*



Source: Federal Reserve Board, TrendMacro calculations

Update to strategic view

US FED, US MACRO, US BONDS: While some might be disappointed by no indication that much-discussed "yield curve control" is coming – or any other policy innovations, for that matter – today's steady-as-she-goes FOMC was ideal for maintaining confidence. Since the Fed's massive new lending programs barely have any uptake yet anyway, why create uncertainty by introducing entirely new policy initiatives without evidence they are needed? The FOMC displayed encouraging unanimity with the "dot-plots," showing a near-zero policy rate through 2021, and only two brave members expecting a hike in 2022. After a 47% equity market rally from the March lows, it's time for a breather in risk assets no matter what the Fed might have said today.

[Strategy dashboard]

more is even needed?

- *For now, the Fed's apparent unanimity about present policy is best for the confidence that is so key for recovery*. In today's Summary of Economic Projections – the first since December – the "dot plot" of the appropriate policy rate shows *17 out of 17 FOMC members thinking it should stay right where it is through 2020 and 2021*. For 2022, one freethinker ventures a policy rate of 3/8%, and one brave soul even dares imagine a recovery justifying 1-1/8% (please see the chart on the previous page).
- The immediate reaction in markets would seem to indicate expectations for something more aggressive. The S&P 500 showed some gains right after the steady-as-she-goes statement. But as the post-meeting press conference began, and Chair Jay Powell glided over the possibility of yield curve control as an "open question," equities gave up their gains. *Perhaps there was hope that he would lay the groundwork for it as a soon-to-be-announced policy option.* When a moment later Powell went off on a tangent about racism – well-intentioned to be sure, but a tone-deaf distraction for a Fed chair – equities flipped to losses as great as the prior gains had been.
- Treasury yields, sagging as of this writing after an initial post-statement jump, seem to be a bit disappointed also.
- We see all this as a short-term knee-jerk reaction. *The FOMC has done the right thing by announcing nothing new, when its already-announced innovations haven't even taken hold yet.*
- It was probably just a gaffe – or maybe a Freudian slip! -- when Powell said, in response to a question, "We're continuing asset prices at a relatively high level."[1]
- *But after almost three months of risk-back-on, with the S&P 500 risk premium near post Global Financial Crisis lows, we think risk-assets are due for a breather, no matter what the FOMC might have announced or Powell might have said* (see "Do Equities Have a Valuation Problem?" June 9, 2020).

Bottom line

While some might be disappointed by no indication that much-discussed "yield curve control" is coming – or any other policy innovations, for that matter – today's steady-as-she-goes FOMC was ideal for maintaining confidence. Since the Fed's massive new lending programs barely have any uptake yet anyway, why create uncertainty by introducing entirely new policy initiatives without evidence they are needed? The FOMC displayed encouraging unanimity with the "dot-plots," showing a near-zero policy rate through 2021, and only two brave members expecting a hike in 2022. After a 47% equity market rally from the March lows, it's time for a breather in risk assets no matter what the Fed might have said today.

Contact TrendMacro

On the web at
trendmacro.com

Follow us on Twitter at
twitter.com/TweetMacro

Donald Luskin
Dallas TX
312 273 6766
don@trendmacro.com

Thomas Demas
Charlotte NC
704 552 3625
tdemas@trendmacro.com

Michael Warren
Houston TX
713 893 1377
mike@trendmacro.energy

[About us]

[1] Surely he meant "asset purchases."