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TRENDMACRO LIVE!

On the January FOMC

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Powell was baited repeatedly to make gaffes on GameStop and inflation – but he didn't.

Today's FOMC statement changed versus December's in three respects (for a complete red-line mark-up, see "Data Insights: Federal Reserve" January 27, 2021).

- Today, "The pace of the recovery in economic activity and employment" was said to have "moderated in recent months, with weakness concentrated in the sectors most adversely affected by the pandemic." This is a downgrade versus December, in which it was said that "Economic activity and employment have continued to recover."
- *This downgrade might chill those who (a) hadn't previously been aware of this obvious fact and (b) who take their economic forecasting cues from the Fed.* Silly as it seems, that likely explains the equity markets' immediate negative reaction. We've seen that before at FOMC meetings.
- *For the rest of us, these language changes are only an assurance that the Fed has no intention to change its policy course and is making no particular preparations to do so.*
- Today, "including progress on vaccinations" was appended to the phrase "The path of the economy will depend significantly on the course of the virus."
- *The Fed still has not acknowledged that the economic devastation of 2020 was due not to the virus, but rather to the imposition of costly and useless lockdown policies. As a political organization it never will. At least this new phrase acknowledges human agency in the matter.*
- Finally, in the sentence "The ongoing public health crisis will continue to weigh on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term" the references to "near term" and medium term" were eliminated.
- *We don't read anything into that. When asked about it in the press conference, Powell only said that "frankly" the medium term risks were in fact near term risks. Go figure.*

Powell was given the opportunity to trip himself up with the very first question asked in the press conference: an invitation to comment on the "wild ride" that GameStop's stock has been on. He didn't take the bait. He

Update to strategic view

US FED, US MACRO: The statement acknowledges that the pace of recovery has slowed in recent months, which equity markets seem to be treating as new news. In fact, it is a token that the Fed isn't even remotely considering changing its policy posture. In the press conference, Powell was asked twice about GameStop, and whether it indicated a bubble caused by "easy money." He didn't let himself be baited into an "irrational exuberance" gaffe, arguing correctly that easy money was appropriate after the economic shock of the pandemic. When asked about whether the Fed would react to a surge in inflation, he said it was a matter of "credibility" for it not to do so, in light of a decade of disinflation and the new average-inflation targeting regime in which inflation above 2% for some period is seen as desirable.

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did not make a gaffe of the Greenspan "irrational exuberance" variety. Wisely, he just said the Fed doesn't comment on individual companies, and moved along.

- The second question doubled down – asking specifically whether "easy money" was fueling a bubble not just in GameStop, but in equities in general as well as Bitcoin and corporate bonds.
- Powell gave the right answer – that seemingly "easy money" is entirely appropriate in light of the unprecedented shock of the pandemic. *He went on to say he believed it is the combination of fiscal policy and recovery expectations are fueling asset valuations. Good answer; he is right*.

The third question was another tough one – about whether robust economic recovery this year could lead to inflation, and how the Fed would determine whether it was temporary or persistent. Powell gave a version of his response to a similar question in the December press conference (see "On the December FOMC" December 16, 2020) – that he expects a transient bump in inflation, and that it would be a welcome relief after a decade of too-low inflation.

- He emphasized the Fed's new policy of targeting average inflation, which requires tolerating periods in which it is above the targeted average of 2% (see "Powell at Jackson Hole, and the Inflation Makeup Strategy" August 27, 2020). He said today it was a matter of "credibility" for the Fed to be as good as its word on that – to not over-react if and when inflation does rise above 2% this year.
- Later, in a response to yet another question raising the same matter, Powell said the whole world "has been struggling with disinflationary pressures for some time," and he doesn't see the factors causing that to have changed. He went on to say that it is far more important to him to complete the economic recovery, to not "put at risk people's careers and lives," rather than worry about inflation.
- *As we talk to clients every day, this comes up as a persistent concern. We are delighted that Powell reiterated this constructive policy posture*.

Bottom line

The statement acknowledges that the pace of recovery has slowed in recent months, which equity markets seem to be treating as new news. In fact, it is a token that the Fed isn't even remotely considering changing its policy posture. In the press conference, Powell was asked twice about GameStop, and whether it indicated a bubble caused by "easy money." He didn't let himself be baited into an "irrational exuberance" gaffe, arguing correctly that easy money was appropriate after the economic shock of the pandemic. When asked about whether the Fed would react to a surge in inflation, he said it was a matter of "credibility" for it not to do so, in light of a decade of disinflation and the new average-inflation targeting regime in which inflation above 2% for some period is seen as desirable.