

## What to Expect from the First Fed Meeting of 2021

- No policy changes are expected from this meeting.
- The press conference will likely reiterate the need for fiscal stimulus.
- To avoid another “taper tantrum,” we expect Powell to reinforce low rate policy.

This week, all eyes will be on this year’s first Federal Open Market Committee (FOMC) meeting. Led by Jerome Powell, the FOMC sets the direction of monetary policy (i.e. raising or lowering interest rates). While no policy changes are likely, we expect Powell to give us the Fed’s outlook for the economy, pressure senators who recently pushed back on a fiscal stimulus relief package, and reinforce the message that the Fed will not be tightening monetary policy any time soon.

When the FOMC meets Tuesday and Wednesday, it will likely be a low-key event with little surprises. We expect the Fed to leave current policies unchanged given the uneven economic recovery that we continue to see in the near-term (weak spending on services and still elevated unemployment levels). On the other hand, the post-meeting press conference may be a different story.

This weekend, a bi-partisan group of 16 budget-conscious senators pushed back against the \$1.9 trillion stimulus package. With Democrats holding a razor-thin majority in the Senate, this news increases uncertainty around the relief package’s current form and timing. As Chairman Powell has done so many times and with increasing insistence each time, we expect him to continue to point to the need for stimulus and highlight the Fed’s commitment to keep borrowing costs of the debt caused by this low. These would echo the comments made by Janet Yellen in her Treasury secretary confirmation hearing last week when she repeated President Biden’s call to “act big” on fiscal stimulus. She also noted, *with the interest cost low*, even though the debt has increased significantly over the past year, more stimulus can be provided. Both Yellen and Powell remain on the same page – regardless of the financial cost, they would like to support the economy until it is self-sufficient.

More fiscal stimulus has led to some speculation that the ensuing strong economic recovery could lead the Fed to withdraw support sooner than expected. A more economically optimistic view could bring forward expectations of unwinding quantitative easing (QE) and maybe higher interest rates. However, we expect Powell to also use the press conference to reinforce the message that the Fed will not be unwinding its balance sheet, otherwise known as tapering, anytime soon. The Fed wants to avoid another “taper tantrum” that hurt markets in 2013 when investors learned that the Fed was slowing its QE program and panic caused a sharp spike in yields. Having learned from mistakes from predecessors, we expect Powell to add his support for more fiscal stimulus and, despite the possible ensuing rise in yields, to reassure financial markets that such action will not prompt the Fed to tighten monetary policy any time soon.

With the economy following our 2021 blueprint, where an uneven economic recovery gets replaced by a broadening recovery, expect market volatility to stay elevated as this transition takes place. In these times, your financial professional can help you stay focused on your long-term risk and return goals and help you with your personalized investment objectives.

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