The Fed: Dovish for longer

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The September 16 Federal Reserve statement and press conference marked the first formal projections since Chairman Powell's August speech in which he indicated the Fed's willingness to maintain rock-bottom interest rates until inflation manages to surpass the Fed's 2% target. The accompanying data release included longer-term projections that show 13 of 17 FOMC members expect the current 0% to 0.25% Fed Funds range as appropriate all the way through 2023. For 2022, only 1 of 17 believes it's appropriate to step up from the zero-bound. It was this theme – dovish for longer – that Chairman Powell stressed in the post-announcement press conference.

Other than the Fed's broad statement that it will seek to achieve maximum employment and surpass the 2% inflation target "modestly" and "for some time" before raising short-term interest rates, there was scant detail about specific triggers – either in levels or duration – that would lead to future rate increases. Fair enough; those are matters for another day. The Fed is also continuing its purchases of debt securities, as expected.

The Fed's data release also included updated projections for GDP growth, the unemployment rate, and inflation. With the economic rebound so far exceeding expectations, this year's GDP growth is expected to be less negative than originally forecast (-3.7% versus the June expectation of -6.5%), although some of that growth is pulled forward from 2021 and 2022. The employment outlook is expected to improve faster and with marginally higher inflation compared with June predictions. Of note, the Fed believes the unemployment rate could drop down to the mid-4% range by the end of 2022.

Our take

The Fed is on the side of markets, growth, and employment as far as the eye can see. That's positive for risk assets, but Chairman Powell also noted the importance of continued fiscal stimulus which remains uncertain at present. When pressed during the Q&A, Chairman Powell conceded that the Fed's projections included expectations for some level of additional fiscal stimulus.

Despite deep differences in stimulus proposals between Senate Republicans and House Democrats, pressure is building to get a deal done. That pressure doesn't guarantee a deal, but lawmakers are likely to find it increasingly uncomfortable to hold firm on the ideological line while supplemental unemployment benefits run out in coming weeks.

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