



## Federal Reserve on Deck in June

The Federal Reserve Open Market Committee's scheduled June meeting took place this week. Minutes of the meeting which may provide more nuanced clues regarding the trajectory of monetary policy will come in the weeks that follow. Investors are generally dialed into these routine policy events and the resulting communications to the public that they bring. The next set of meetings starting this June may get extra attention due to the fact that we are observing "hotter" levels of price increases in part due to the "base effect" or the bounce in prices from the depressed trough levels experienced during the shock of the crisis.

The annualized real rate of growth in the U.S. economy in the first quarter came in at 6.4% (See Graph Plot 1). Long-term trend real growth is considered to be just under 2%. This is a significant growth rate thus far for 2021 and the current expectation is that the above trend growth rates will continue into 2022. It is likely that this above trend growth will ultimately fade and the question that investors seem to want to find insight into, at present, is whether or not the inflationary impulse and higher prices that are being both observed and felt will also fade towards more sustainable levels or will there be some permanent new higher level of prices that is born out of the current period and the extraordinary fiscal and monetary policy responses. The market clearly wants to hear what the Fed has to say on the matter.

Consumption levels in the economy have recovered to their pre-COVID 2019 levels (See Graph Plot 2), while the same cannot necessarily be said for levels of consumer confidence (See Graph Plot 3). Sentiment, indeed, has recovered though not to the pre-COVID highs, as measured by the Conference Board's Consumer Confidence Index.

The bull argument may indicate that growth in the production of goods and services will settle into a stable and lower level with inflation pressures fading. This in turn would give businesses and corporations a reasonable environment to find productivity growth and sustained profit. More importantly, that backdrop may provide an environment where policymakers continue to provide a level of accommodation, all of which could be seen as supportive of risk assets and allowing for a deeper recovery.

Bears may argue that we have already arrived at a place where policymakers are facing difficult tradeoffs. In this view, the need to address price stability while we are still recovering from a significant shock to the global economy is already at hand. The high level of accommodation may lead to a more sustained and broad increase in the price level which may require taking restrictive measures sooner rather than later from a policy standpoint. That in turn could lead to more volatile asset markets. It may not be a binary set of outcomes as outlined and the real outcome could lay somewhere in between. Upcoming Fed actions and communications with the public should give clues as to where the balance of risks are viewed.

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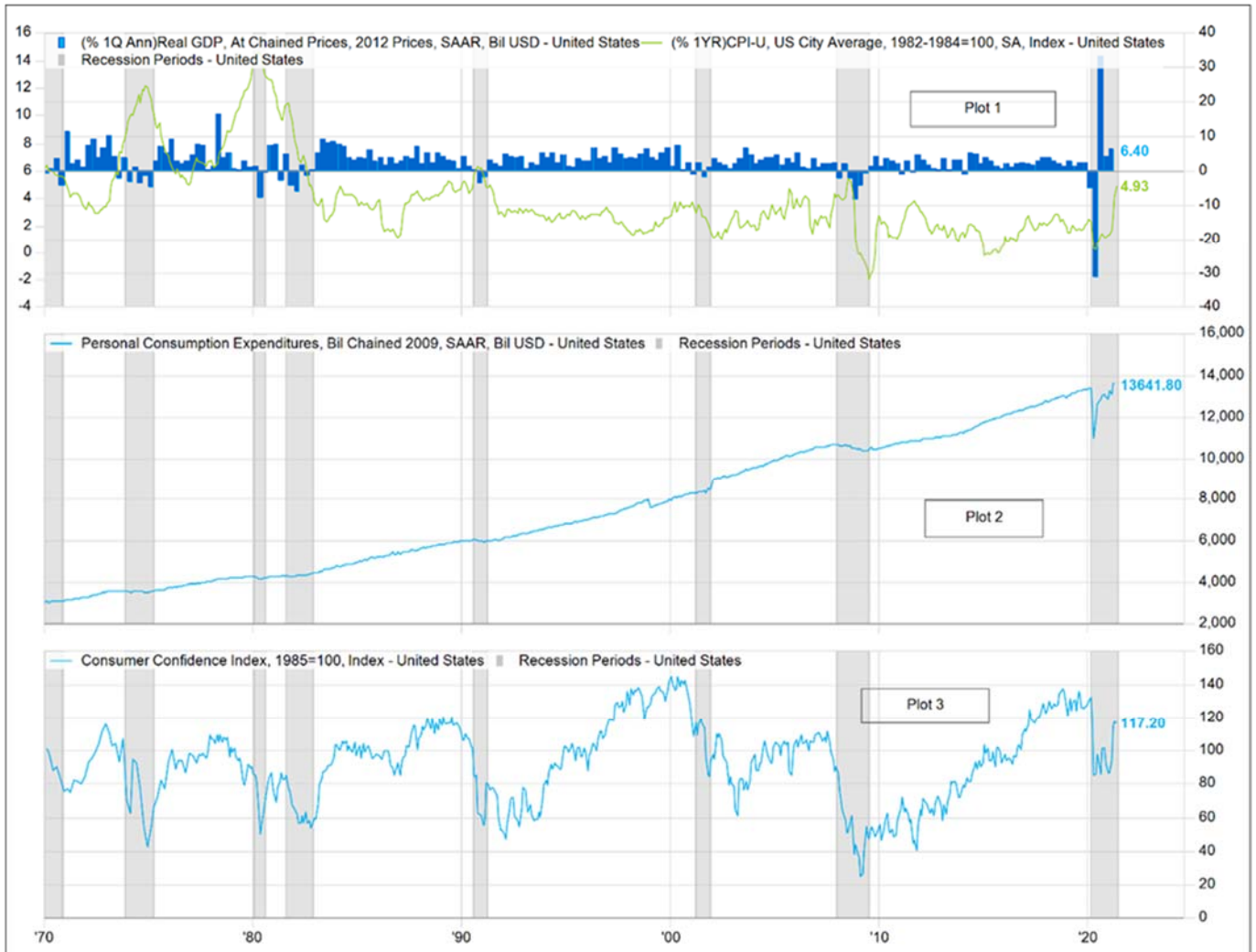
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