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Fed threads the needle with upbeat economic message and dovish stance

By: Eric Stein, CFA | April 29, 2021

Boston - In some key respects, the April 28 meeting of the U.S. Federal Reserve might be considered "perfect." Fed Chair Jay Powell and members of the Federal Open Market Committee (FOMC) succeeded in threading the needle by sounding more upbeat about the economy than at the last meeting in March, while also continuing their very dovish messaging about monetary policy — much a "steady as she goes" announcement.

As with the March 17 meeting, policymakers made no change to the current fed funds target range of 0% to 0.25%. There have been some questions about when the FOMC would begin "tapering" purchases of Treasurys and mortgage-backed securities — currently pegged at $80 billion and $40 billion a month, respectively. But the Fed strongly pushed back against the notion of tapering asset purchases, indicating it would be some time before that started, and there would be plenty of warning for the market.

The Fed's growth message was positive: "Amid progress on vaccinations and strong policy support, indicators of economic activity and employment have strengthened. The sectors most adversely affected by the pandemic remain weak but have shown improvement. Inflation has risen, largely reflecting transitory factors." But FOMC members also cautioned that "risks to the economic outlook remain" should progress on the virus and vaccinations slow down.

The Fed also reiterated a commitment to its policy of *average inflation targeting* (AIT). Under this policy, the Fed said it would permit inflation to rise above its 2% target for "some time," given that inflation has been running "persistently below" the long-run 2% goal.

Bottom line: I believe the recent economic growth will continue and that the Fed has successfully conveyed its dovish signaling to the markets throughout April, as reinforced by the April 28 meeting. We have seen yields back down recently, including a couple of basis points in the 10-year U.S. Treasury on April 28, and weakening of the U.S. dollar — price actions that are consistent with the markets taking the Fed at its word, at least for now.

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