Fed Stays Put

Risk assets stage rally into the close

July 2020

Stephen Proffer, CFA, Consultant, Market Strategist

The Federal Reserve (Fed) left its policy rate unchanged at the July meeting and announced it expects to continue buying U.S. Treasury and agency securities at the current pace for the foreseeable future. Treasury yields were little changed following the widely anticipated statement, but risk assets staged a rally into the close on the heels of Chairman Powell's comment that the Fed 'is not even thinking about raising rates' and is "committed to using its full range of policy tools" until it achieves its dual mandate of full employment and price stability.

Although household financial conditions improved since May, the Fed had observed a slower pace of economic activity since mid-June when positive case counts began to rise. Powell acknowledged the future economic path depended on the course of the virus, renewed mitigation efforts and progress toward a treatment. That said, the Fed's base case calls for a slow labor market recovery, which appears reasonable given the stubbornly high level of continuing jobless claims.

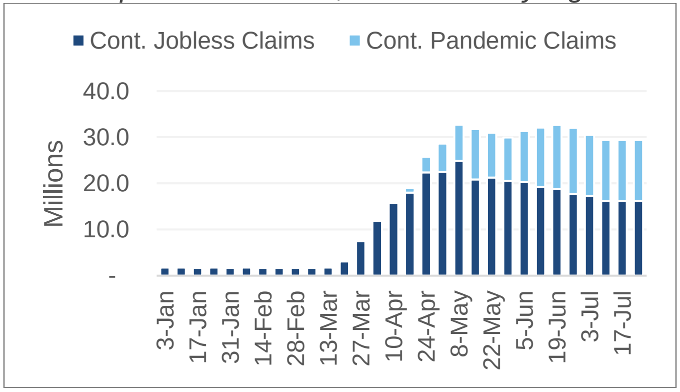
Weak labor market conditions and the recent slowdown in economic activity suggest core inflation will stay below the Fed's 2.0 percent target for some time despite the magnitude of fiscal and monetary stimulus. As members of Congress continue to debate the particulars of another round of government stimulus, several Federal Reserve facilities created in March to support the smooth function of financial markets remain underutilized. During his virtual press conference, Powell candidly offered that he believes market participants, anticipating that the Fed would backstop risk assets, stepped into to purchase securities in those markets. Forward guidance is still a potent monetary policy tool!

The next few weeks will offer additional economic signposts, notably, second-quarter GDP growth and non-farm payroll data, retail sales. Many supplemental household financial assistance programs are also set to expire, setting up for a potential spending cliff should Congress delay another round of fiscal stimulus.

As noted in our mid-year update, investors should remain vigilant as global economies stabilize and recover. In these uncertain times, we encourage investors to stick with a thoughtful asset allocation that aligns with their investment horizon.

Continuing Jobless Claims

Through July 24, nearly 30 million workers were collecting unemployment benefits, down 3.3 million from the peak on June 19, but stubbornly high.



Source: Bloomberg. Data through July 24, 2020.

IN FOCUS

Investment Insights into Current Events

DiMeo Schneider & Associates, L.L.C.

For more information and assistance, contact any of the professionals at DiMeo Schneider & Associates, L.L.C.

About the Author:

Stephen Proffer, CFA
Consultant, Market Strategist

Steve provides investment consulting services to institutional clients and nonprofit organizations. He services clients by providing advice and expertise on asset allocation, portfolio design, investment policy statements, manager search process, fiduciary stewardship, and overall investment management. Steve also produces financial market commentary and supports capital market research at the firm. Prior to joining the firm in 2017, Steve was an Associate Client Investment Officer with Northern Trust Asset Management where he provided comprehensive investment management services to discretionary institutional client portfolios. Steve earned a BA in Economics and Finance from the University of Illinois Urbana-Champaign and a Masters of Analytics from the University of Chicago. He is a CFA® Charterholder and a member of the CFA Institute, CFA Society of Chicago, and The Chicago Council on Global Affairs. Additionally, he serves on the investment committee of Special Kids Foundation, a nonprofit that makes a positive impact in the lives of children with developmental disabilities through education, treatment and/or inclusion. Steve enjoys outdoor activities and spending time with family.