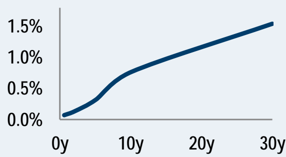
November 5, 2020

THE SANDWICH MEETING

- The Federal Reserve held steady its target for overnight rates to a range of 0 – 0.25%, unchanged now four meetings and more to come
- There were no material policy changes, and we continue to anticipate zero interest rates through 2022, possibly longer
- Language in the FOMC statement was almost entirely unchanged, but retains the very cautious tone set back July's FOMC meeting
- There is nothing in the statement to suggest the FOMC will terminate (pending Treasury Dept. approval) corporate or muni lending facilities

Treas.	2.15PM	1.45PM	Chg.
3mo	0.08	0.08	+0.00
2yr	0.15	0.15	-(0.00)
5yr	0.33	0.34	-(0.00)
10yr	0.77	0.78	-(0.00)
30yr	1.55	1.55	-(0.00)
3m/2s	6	7	-(0)
2s/10s	63	63	-(0)
2s/30s	140	140	-(0)



November's FOMC meeting was going to be a non-issue from the moment it was scheduled. The meeting is sandwiched between two of the bigger data points this fall, the November Presidential election (results pending), and the October jobs report, due Friday. Given the Fed's long-running apolitical history, there is no reason to expect policy action that close to an election. And given the improving, though noisy, jobs landscape, there is only limited reason to expect action immediately before more data on the topic. Two pieces of bread, one Fed. That Fed left rates unchanged and its bond-buying programs unchanged at $80 billion per month. Definitely a ham on rye, no spicy mustard.

Economic conditions since the Fed last met have improved, albeit unevenly. Private sector job gains exceeded expectations, although labor force participation slipped particularly among prime-aged women (perhaps related to "school at home"), and numerous people moved from reporting being "temporarily" to "permanently" laid off. Manufacturing output improved and it seems like there is a large need for inventory restocking after many businesses ran lean, which should allow manufacturing strength to persist. Housing market activity remains on a tear with no signs of abating, a very positive sign for future consumption. Not only does demand for construction create jobs, but numerous academic studies also show rising home values spur greater consumer spending among homeowners. On the downside, a lack of further fiscal stimulus means that transfer payments to the unemployed are running out and may create a consumption headwind into the holiday season. Finally, inflation trends have been essentially stable, with the core PCE deflator, the Fed's preferred inflation metric, trending in the high-1% range.

It seems a good thing that Minnie Fed President Neel Kashkari had a baby and took paternity leave for this meeting—otherwise; we would have nothing to talk about in the statement. Congrats Neel and family! The statement was almost entirely unchanged from Septembers, save from a few word switches that amount to little more than thesaurus work. Growth "continued to recover," and the summer mayhem in oil markets went from "are" holding down inflation to "have been" holding down inflation. Conditions "remain accommodative." There is nothing new to take from these small changes. The Fed remains on hold for the foreseeable future, pending a material change in current period inflation. In fact, in our view, the most likely reason for the Fed to alter its policy in the next 6-12 months is if evidence emerges that heavy long-duration bond issuance is leaving dealers unable to intermediate the Treasury markets. In that scenario, the Fed might look to another Operation Twist (sell short-term, buy long-term) bonds to support trading volumes and liquidity in these long-duration Treasuries.

Financial markets were little changed in the immediate aftermath of the FOMC meeting, reflecting the decidedly boring nature of the changes. One matter that posed some concern was the renewal of various lending facilities launched in March – April of this year, in the depths of the pandemic financial panic. While the statement does not specifically address those programs, the retained cautious tone of the statement suggests Fed officials will advocate to renew (they also require Treasury Secretary sign-off) those corporate and municipal bond buying and lending programs. Those programs are not widely used, but their mere continued existence is a powerful signal of Fed support for credit and lending.

FEDERAL RESERVE press release

- The Fed left its mission statement in place
- Virtually no changes to the assessment
- Rates unchanged, bond buying remains at current $80bln/mnth pace for foreseeable future
- Voting unanimous; Neel Kashkari absent on paternity leave and replaced by Mary Daly

The Federal Reserve is committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals.

The COVID-19 pandemic is causing tremendous human and economic hardship across the United States and around the world. Economic activity and employment have continued to recover but remain well below their levels at the beginning of the year. Weaker demand and earlier declines in oil prices have been holding down consumer price inflation. Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses.

The path of the economy will depend significantly on the course of the virus. The ongoing public health crisis will continue to weigh on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. With inflation running persistently below this longer-run goal, the Committee will aim to achieve inflation moderately above 2 percent for some time so that inflation averages 2 percent over time and longer-term inflation expectations remain well anchored at 2 percent. The Committee expects to maintain an accommodative stance of monetary policy until these outcomes are achieved. The Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time. In addition, over coming months the Federal Reserve will increase its holdings of Treasury securities and agency mortgage-backed securities at least at the current pace to sustain smooth market functioning and help foster accommodative financial conditions, thereby supporting the flow of credit to households and businesses.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on public health, labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Michelle W. Bowman; Lael Brainard; Richard H. Clarida; Mary C. Daly; Patrick Harker; Robert S. Kaplan; Loretta J. Mester; and Randal K. Quarles. Ms. Daly voted as an alternate member at this meeting.

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