

FED WATCH: "BLUES CLUES"

Kevin Flanagan — Head of Fixed Income Strategy

06/16/2021

Well, here we are at the "halftime report" for the [Federal Reserve \(Fed\)](#). What do I mean by that, you might ask? The Fed just wrapped up its fourth [FOMC](#) meeting for 2021 and has four more remaining. (Plus, it is mid-June after all.) Thus far, from a broader policy perspective, the voting members are at the midway point for 2021, and they are still in "steady as she goes" mode in terms of their current policy setting. However, we seem to be getting closer to the beginning of the Fed initiating an "exit strategy" of sorts.

So, what are the takeaways from this policy convocation? Primarily, the Fed is still apparently in no hurry to remove its unprecedented accommodation, BUT some members do seem to be ready to put a timeline of sorts together to move slowly in that direction. In fact, the language being used in a variety of different forums has been "talking about, talking about [tapering](#)."

This meeting carried the "trifecta": a policy statement, Powell presser and the Summary of Economic Projections (SEP). In no surprise, the voting members "marked to market" their policy statement, as well as the SEP, to reflect the incoming data that had been received. There's no doubt the broader economic numbers have been pointing to another outsized gain for real [GDP](#) in Q2. However, sprinkled in has been the highly publicized spike in [inflation](#) juxtaposed against the disappointing (in relative terms) employment numbers. While acknowledging the inflation story of late, the "transitory" stance still holds sway. From the Fed's point of view, the aforementioned employment data seems to be carrying the most weight, underscoring Powell's cautious approach.

Heading into the June FOMC meeting, I recently blogged (and podcasted) that I'd be watching the Fed's "[blue dots](#)," [aka its Fed Funds estimates](#). From December through March, the number of members pushing up the timing of the Fed's median forecast of a 2024 first rate hike had been increasing modestly. However, this time around a more notable change did take place, as the number of Fed officials pushing up the first rate hike to 2023 outnumbered the "2024" crowd. These "blue dots" will more than likely be a fluid situation for the remainder of this year, as the Fed increasingly becomes data dependent.

Conclusion

For fixed income investors, the recent trading activity in the [U.S. Treasury \(UST\) 10-Year yield](#) underscores how the market has already "priced in" the current [macro](#)/Fed policy setting. For the second half of the year, I would argue the UST market will be taking its cue from any potential shifts in the Fed's thinking, namely the discussion surrounding tapering and the exit strategy in more broader terms. Remember, the policy makers recently announced, without much fanfare, they would be winding down their holdings of corporate bonds on their [balance sheet](#). Technically speaking, the exit strategy has begun.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

Related Blogs

- + [Breathe, Breathe in the Air](#)
- + [Wait a Minute\(s\)](#)
- + ["Consumed" by Inflation](#)

Related Funds

- + [WisdomTree Floating Rate Treasury Fund](#)
- + [WisdomTree Yield Enhanced U.S. Aggregate Bond Fund](#)

+ [WisdomTree Interest Rate Hedged High Yield Bond Fund](#)

For more investing insights, check out our [Economic & Market Outlook](#)

View the online version of this article [here](#).

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.

You cannot invest directly in an index.

DEFINITIONS

Federal Reserve : The Federal Reserve System is the central banking system of the United States.

Federal Open Market Committee (FOMC) : The branch of the Federal Reserve Board that determines the direction of monetary policy.

Tapering : A shift in monetary policy by which the Federal Reserve would begin decreasing the amount of bonds it purchases.

Gross domestic product (GDP) : The sum total of all goods and services produced across an economy.

Inflation : Characterized by rising price levels.

Blue dots : the midpoint target range/level of the FOMC participants' projections for the future Federal Funds Rate.

10- Year Treasury : a debt obligation of the U.S. government with an original maturity of ten years.

Macro : Focused on issues impacting the overall economic landscape as opposed to those only impacting individual companies.

Balance sheet : refers to the cash and cash equivalents part of the Current Assets on a firms balance sheet and cash available for purchasing new position.