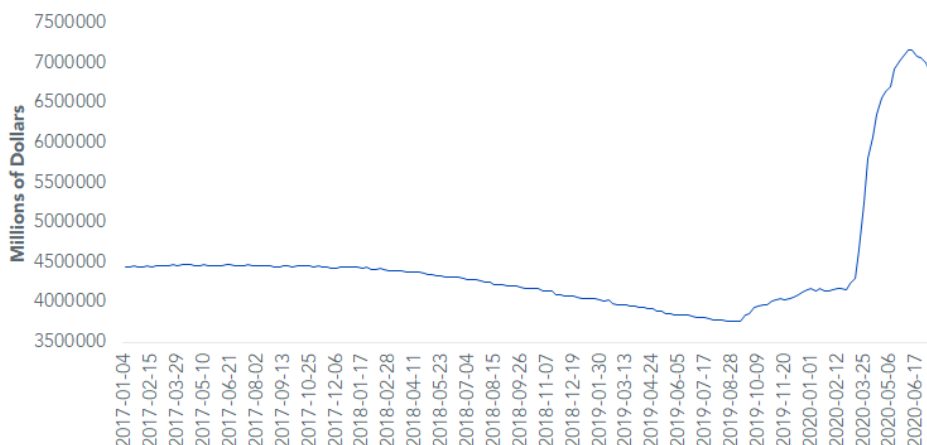


FED WATCH: GONNA TAKE TWO WEEKS; GONNA HAVE A FINE VACATION

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07/29/2020

With all that has happened thus far in 2020, it's easy to forget that, technically, the [Federal Reserve's \(Fed\)](#) current easing cycle actually began exactly a year ago! Yes, indeed—at the July 2019 [FOMC](#) meeting, the policymakers implemented their first [rate cut](#), essentially reversing the very unpopular [rate hike](#) that was implemented at the end of 2018. Now here we are, 12 months later, with a zero [interest rate](#) policy, revamped [quantitative easing \(QE\)](#) and a whole new array of [balance sheet](#) facilities to ward off another potential financial crisis, support the money and bond markets and, of course, hopefully provide stimulus for the economy. Against this backdrop, it should come as no surprise the Fed decided to take a bit of a summer vacation at this July FOMC gathering.

Federal Reserve Total Assets



Source: Federal Reserve, as of 7/23/20. Past performance is not indicative of future results.

Looking at recent developments regarding the Fed's balance sheet, one gains some insight as to perhaps why the policymakers are just "letting things be" for now. After a fast and furious start, the balance sheet had actually been shrinking for a four-week period before some modest increases the last two weeks.

Let's give it some perspective. Between February 26 and June 10, total assets rose by an unbelievable \$3.0 trillion, but 92% of this expansion took place before mid-May. Since then, the balance sheet has risen by "only" about \$31.0 billion; a period, of course, that includes the aforementioned shrinkage. Keep in mind, total assets still stand at just under \$7.0 trillion!

These balance sheet developments are actually "good news." why? Because a) they show that the Fed looks like it avoided another financial crisis, and b) the money and bond markets have apparently gotten to the point that major doses of Fed support are not needed.

Bottom line: Just because the voting members didn't enact any new policy stimulus, it doesn't mean the sunscreen has been applied and it's time for a nap at the beach. Quite the contrary. Chairman Powell & Co. continue to remain concerned about the uncertain

outlook, with the recent “one step forward, two steps back” pandemic occurrence here in the U.S. no doubt getting their attention. The Fed is going to remain in accommodative mode for the foreseeable future and will be looking to implement tools such as “target-based” forward guidance where they could very well let “things run hot,” as compared to prior policy episodes.

Unless otherwise stated, all data sourced is Federal Reserve, as of July 23, 2020.

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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.

Rate Cut: A decision by a central bank to reduce its main interest rate, usually to influence rates charged by other financial institution.

Rate Hike: refers to an increase in the policy rate set by a central bank. In the U.S., this generally refers to the Federal Funds Target Rate.

Interest rates: The rate at which interest is paid by a borrower for the use of money.

Quantitative Easing (QE): A government monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market. Quantitative easing increases the money supply by flooding financial institutions with capital, in an effort to promote increased lending and liquidity.

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.