July 1, 2021

FUSCO FINANCIAL ASSOCIATES

Market Commentary

Dear Valued Clients,

Federal funds rate, asset purchases, tapering, hawkish… if you have been keeping up with the financial news over the past week you have likely been inundated with these terms as financial markets and economists have continued to digest the results of the most recent Federal Open Market Committee (FOMC) meeting. While not the most exciting of subjects, the fallout brought on by COVID-19 caused these items to be quite polarizing over the past year and a half as the Fed has worked to navigate our economic recovery. So let's quickly recap the steps taken leading up to last week's meeting.

Back in March of 2020 the Fed reduced the federal funds rate (the interest rate banks charge each other for loans) by 1½ percentage points effectively bringing it to 0. This was done to lower borrowing costs for both businesses and households as so many were negatively impacted financially by the pandemic. Additionally, this promoted spending and investment which are critical in order for an economy to rebound. The second notable measure taken was the buying of assets in the open market, specifically Treasuries and Mortgage Backed Securities. The purpose here was to stabilize financial markets and to inject liquidity into the financial system, to the tune of approximately $120B per month. They have continued with these asset purchases since March of last year. These efforts, coupled with an array of other mandates, have assisted in the US economic rebound, following the quarter over quarter decrease in US Real GDP of -31.4% in Q2 of last year, we have seen consecutive quarter over quarter increases of +33.4%, +4.3%, and +6.4%[1].

This brings us to last week's meeting. Now the primary role of the FOMC is to promote economic growth and stable price levels. This is not always a straightforward endeavor as these factors can sometimes work against each other; a byproduct of an economy growing too fast can sometimes be higher than expected levels of inflation. So the primary question heading into this meeting was will recent inflation data cause the Fed to taper their monthly asset purchases, and will they move up their timeline in terms of raising the federal funds rate? A lot of headlines have been using the term “hawkish” to describe the results of the meeting (policy that favors higher interest rates to control inflation[2]) as the FED projected it will move up the date of its first federal funds rate increase to 2023 from 2024. As for tapering, they have no plans to reduce their monthly asset purchases.

In summary, like many Investors the Fed is maintaining its view that the increased levels of inflation seen recently are transient. This coupled with the fact that we are still not fully back on track in terms of long-run economic growth has resulted in no immediate action from the Committee. With a couple months of updated economic data between now and then, the next notable meeting is scheduled for the end of September.

With my best regards,

Kevin Fusco

Registered Principal, RJFS

Fusco Financial Associates
Private Wealth Management

505 Baltimore Ave.
Towson, MD 21204
(410) 296-5400

3825 Leonardtown Rd., Suite 6
Waldorf, MD 20601
(301) 710-5880

Visit us at www.fuscofinancial.com

[1] Source: St. Louis Federal Reserve Bank
[2] Source: Investopedia