CHANDLER ASSET MANAGEMENT

Economic highlights from the week ending on September 24, 2021

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As expected, the Federal Open Market Committee (FOMC) kept monetary policy unchanged at its meeting this week but clearly signaled that they are preparing to reduce the magnitude of (i.e. taper) their asset purchases. The fed funds target rate remains in the range of 0.0% to 0.25%. For now, the Fed continues to purchase $80 billion of Treasuries per month, and $40 billion of agency mortgage-backed securities per month. However, unless the September employment report is much worse than expected, the Fed is now widely expected to make an official announcement about tapering at the next FOMC meeting in early November, as we have been anticipating. We expect the tapering process will commence December 1st. Fed Chair Powell signaled that the Fed would stop making asset purchases by mid-2022. Fed Chair Powell also indicated that the Fed would not start hiking the fed funds rate before the taper process were complete, but the projected timeline for liftoff on rate hikes was pulled forward in the Fed's updated summary of economic projections. The median estimate among Fed policymakers now calls for one 25 basis point rate hike in 2022, versus the previous outlook for no rate hikes next year. By year-end 2024, the median forecast calls for the target fed funds rate to reach 1.8% (though the range of policymakers' estimates is wide at 0.6%-2.6%). Overall, this week's policy statement, economic projections, and press conference were slightly more hawkish. Nevertheless, monetary policy remains highly accommodative for now, and we believe the target fed funds rate is likely to remain unchanged at near zero percent for at least the next the next twelve months, but the Fed is moving toward a path of policy normalization. The Fed's projections suggest that gross domestic product (GDP) growth is likely to continue growing at an above-trend pace for the next few years, unemployment is expected to improve to 3.5%, and inflation is likely to remain slightly above the long-run target through the forecast period. We believe the Fed will be cautious as it moves toward a steady withdrawal of monetary policy accommodation, amid a backdrop of an improving labor market and growing economy. We generally believe this approach will remain supportive of risk assets and a steeper yield curve, all else being equal. The September FOMC meeting minutes will be released on October 13, which might provide more insight on the potential timeline and pace of tapering.

This week's economic data were somewhat mixed, but we believe underlying momentum in the economy remains strong. The Leading Economic Index (LEI) increased 0.9% in August and was up 10% year-over-year. According to the Conference Board, the LEI's sharp increase in August suggests the economy is on a rapidly rising trajectory. Even though many economists have tempered their outlook for economic growth, the consensus forecast still calls for 5.9% GDP growth this year and 4.2% next year, rates of growth that are well above the long-run trend.

Next Week

Durable Goods, Case-Shiller Home Price Index, FHFA House Price Index, Consumer Confidence, Pending Home Sales, GDP, Personal Income & Outlays, ISM Manufacturing, Construction Spending

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