Economic highlights from the week ending on March 19, 2021

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The Federal Open Market Committee kept monetary policy unchanged at their meeting this week as expected, with the fed funds target rate in a range of 0.0% to 0.25%. The Fed also continues to purchase $80 billion of Treasuries per month, and $40 billion of agency mortgage-backed securities per month. The vote to keep policy unchanged was unanimous. The Fed intends to remain highly accommodative until the labor market has made a strong recovery and inflation is sustainably on track to achieve their 2.0% longer-run target. The Fed's gross domestic product (GDP) growth forecast for 2021 was revised higher, their unemployment rate estimate was revised lower, and their inflation expectations were revised higher. While their updated economic forecasts are more optimistic, the majority of Fed policymakers still expect to keep the fed funds rate unchanged through 2023. Fed Chair Powell also remained quite dovish during his press conference. Although inflation rates are likely to increase in the coming months (as we cycle through the deflationary impact of the pandemic last year and as increases in economic activity may cause short-term supply chain disruptions), the Fed believes the increase is likely to be transient. The Fed intends to remain on the sidelines and look through any near-term increase in inflation. Fed Chair Powell emphasized that policymakers will clearly telegraph their outlook for monetary policy well in advance of any future policy changes. We think the Fed is likely to start tapering their bond purchases before they raise the fed funds rate, but we do not expect any changes to monetary policy in 2021.

The initial market reaction to the Fed's policy announcement earlier this week was muted but long-term interest rates have grinded higher in the last few days. The spread between 2-year and 10-year Treasuries is now roughly 158 basis points, compared to the historical average (over the past 20 years) of about 135 basis points. While the current spread between 2-year and 10-year Treasuries exceeds the historical average, it remains well below the peak spread (during the past 20 years) of about 290 basis points in early 2010 (about 9 months after the end of the 2008/2009 recession). Looking ahead, we believe there is room for rates to continue moving higher this year and for further modest steepening in the Treasury yield curve.

Next Week

Existing Home Sales, New Home Sales, Durable Goods, GDP, Personal Income & Outlays, Consumer Sentiment

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