Markets Still Jittery Despite Powell's Assurance of Continued Accommodation

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Fed Chairman Jay Powell testified this morning in front of the Senate Banking Committee on the state of the U.S. economy and the Fed's monetary policy outlook. The financial markets were particularly focused on Powell's opinion on inflation and the related rise in yields on the long end of the curve. Powell framed the yield increase as a statement of market confidence in a "robust and ultimately complete (economic) recovery." He does not see inflation as a threat, acknowledging year-over-year inflation readings in the spring months will appear considerably higher relative to the same period a year ago when the economy was mostly in lockdown mode. Powell believes consumer spending should pick up substantially in the second half of the year, but related price pressure is not expected to be large or persistent. If inflation does turn out to be higher than expected, Powell says the Fed has the tools to suppress.

There was no indication the Fed's policy will shift anytime soon. Powell emphasized that the Fed was strongly committed to achieving its goals of price stability and maximum employment. He pointed out that millions of Americans remain out of work, and that inflation remains below the Fed's 2.0% objective on a year-over-year basis. He indicated QE asset purchases will continue at the current $120 billion per month pace until substantial progress has been made, but there will be plenty of advance warning of any policy change.

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Powell said the economic recovery since last spring has been due in part to unprecedented fiscal and monetary policy actions. He added that the recovery has been uneven and is far from complete, while repeating that the future path of the economy will depend on the course of the virus.

Although asked several times about Biden's proposed $1.9 trillion stimulus package, Powell opted not to comment on fiscal policy. He did eventually volunteer that this is not the time to worry about debt. In the past, Powell has been quite vocal on his support for additional aid.

Powell chose not to weigh in on the $15/hr. minimum wage proposal. On the possibility of Treasury bill yields moving below zero later this year, Powell pointed to investor demand as the primary driver for historically low yields, and said the Fed could support the fed funds rate if it fell below the targeted range.

These semi-annual state of the economy talks seldom offer new information. Powell has historically chosen his words carefully, and today was no exception. The Fed is squarely on hold, doesn't view long-term inflation as a threat and is committed to achieving maximum employment by keeping rates low. Income inequality, which Powell sees as a concern but not one the Fed can address directly, will improve as the overall economy improves and new jobs are created.

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Bond yields are virtually unchanged across the curve, despite Powell's insistence that inflation will not be a problem. Stocks are taking a beating again today as lofty valuations are suddenly in the spotlight, but Powell's reassurance of continued accommodation has lifted the major indexes well off their early morning lows. Equity market volatility should not be a surprise.

Market Indications as of 1:50 P.M. Central Time

DOW	Down 21 to 31,500 (HIGH: 31,653)
NASDAQ	Down 156 to 13,377 (HIGH: 14,095)
S&P 500	Down 13 to 3,863 (HIGH: 3,934)
1-Yr T-bill	current yield 0.06%; opening yield 0.05%
2-Yr T-note	current yield 0.11%; opening yield 0.11%
5-Yr T-note	current yield 0.58%; opening yield 0.60%
10-Yr T-note	current yield 1.36%; opening yield 1.36%
30-Yr T-bond	current yield 2.19%; opening yield 2.17%