Powell Misses on Attempt to Calm Markets

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The financial markets were eagerly awaiting this morning's interview of Fed Chairman Jay Powell at the *Wall Street Journal's Virtual Jobs Summit*. In retrospect, it's isn't clear what Powell could have said that would have reversed the sell-off in bonds and halted the battering of riskier assets. It might have helped if he'd clarified the specific policy tools he's been referring to that the Fed has at its disposal. Investors were also listening for the announcement of an "operation twist" type program, last used nine years ago when the Fed sold short Treasuries and bought longer-term Treasuries, driving long yields lower. There was no mention of any proposed adjustment in the Fed's asset portfolio.

Most of what Powell volunteered during the interview was cut from his recent speeches.

- While there's still risk, we expect job creation to pick up.
- We expect as the economy reopens, we'll see inflation pick up both from the base effect and a rise in spending.
- The question is whether the inflation increase will be transitory.
- Highly unlikely we'll reach maximum employment this year.
- The markets reflect an opinion of when the Fed will raise interest rates…but it will take time before the necessary progress is made.
- If we do see what we believe is a transitory increase in price pressure…*we will be patient.*
- The Fed would be concerned about disorderly moves or persistent tightening in financial conditions.
- The Fed does not intend to raise interest rates until substantial progress has been made toward meeting its goals.
- Still a long way from achieving goals…
- Trying to make guidance as clear as possible. Not intending to surprise.
- If conditions do change materially, we will be prepared to use our tools to foster the achievement of our goals.
- $120 billion in monthly asset purchases will continue until substantial progress has been made.
- Current policy stance is appropriate.
- Doesn't want to speculate on the possibility of allowing bills to run off the Feds' portfolio.
- The next couple of months will be very important in terms of containing the pandemic.

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Bottom line: *Powell isn't concerned.* He expects higher inflation in the coming months, but believes it will be transitory. He believes the economy has a long way to go, and did not signal any future change in monetary policy. When asked to comment on fiscal policy, Powell refused.

The market's reaction to the interview was harsh. The 10-year Treasury note shed 20/32nds while Powell spoke, and the tech-heavy Nasdaq promptly plunged 350 points. *The Fed will apparently allow the markets to sort this one out themselves.*

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Market Indications as of 12:40 P.M. Central Time

DOW	DOWN 406 to 30,864 (HIGH: 31,962)
NASDAQ	DOWN 303 to 12,694 (HIGH: 14,095)
S&P 500	DOWN 57 to 3,762 (HIGH: 3,934)
1-Yr T-bill	current yield 0.07%; opening yield 0.07%
2-Yr T-note	current yield 0.14%; opening yield 0.14%
5-Yr T-note	current yield 0.77%; opening yield 0.73%
10-Yr T-note	current yield 1.54%; opening yield 1.48%
30-Yr T-bond	current yield 2.31%; opening yield 2.28%