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WEALTH MANAGEMENT

Fed Holds on Policy and Shares Updated Projections

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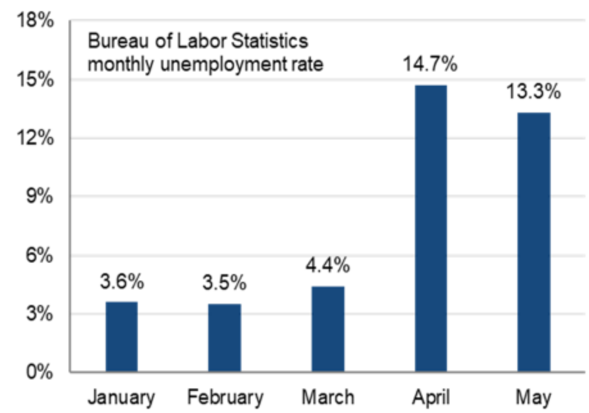
As expected, the Federal Reserve (Fed) left interest rates unchanged at the zero bound. Additionally, Committee members unanimously supported expansion of the balance sheet with purchases of Treasuries, agency mortgage-backed securities (MBS) and agency commercial mortgage-backed securities (CMBS) to continue, at least at the current pace. During his post-meeting press conference, Fed Chair Jerome Powell noted some of the recent improving economic data, including the May jobs report, but also acknowledged the recovery will be a long road. Investors can expect continued accommodative monetary policy and should recognize the Fed's willingness to employ necessary emergency tools to achieve the goals of 2 percent inflation and full employment.

Consistent with investor expectations, the Fed left the federal funds rate target range at 0 to 0.25 percent. The Committee also confirmed its intention to purchase Treasuries, agency mortgage-backed securities (MBS) and agency commercial mortgage-backed securities (CMBS) at its current pace, and left the door open to increase that pace if necessary. Powell highlighted the essentiality of these, and other asset purchases, to supporting the flow of credit.

On a quarterly basis, the Fed typically shares economic projections, however skipped those at the March meeting amid the height of COVID-19 uncertainty and the market selloff. Investors were keenly focused on those updates yesterday, as the first formal Fed projections since late 2019. Committee members expect interest rates to remain at current levels through 2022, and inflation estimates suggest the economy is years away from reaching the Fed's 2 percent target. Despite May's better than anticipated labor market report, the Fed is forecasting 9.3 percent unemployment at year-end.

Market reaction to the Fed announcement was relatively muted with U.S. equities closing the day slightly lower and interest rates ticking down modestly.

Many economists expected a rise in May's unemployment rate, instead it fell to 13.3 percent



Source: Bureau of Labor Statistics

The dichotomy between dismal economic data and a strong risk-on market tone has investors puzzled, and reconciling that situation will certainly remain at the forefront. At FNBC Bank & Trust, we continue to monitor financial conditions, economic developments and, perhaps most important, the progress in containing and fighting COVID-19.

For more information, please contact any of the professionals at FNBC Bank & Trust.