Alan B. Tingey, CFA
Jon D. Tingey, CFA
(801) 352-8166
Alan.Tingey@tingeyadvisors.com
Jon.Tingey@tingeyadvisors.com

TINGEY ADVISORS
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Fed Holds the Line

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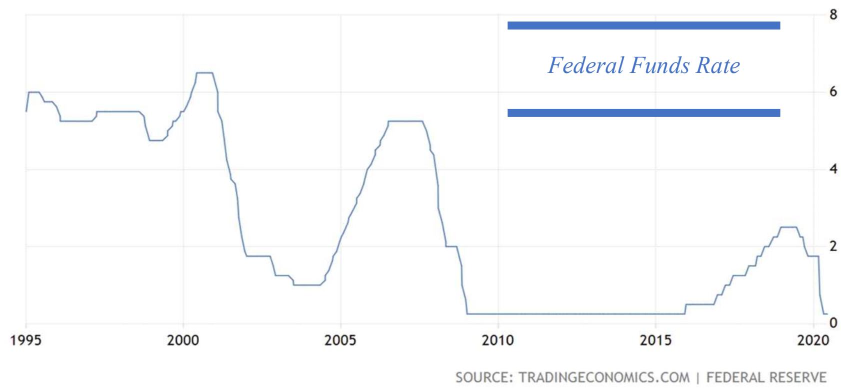
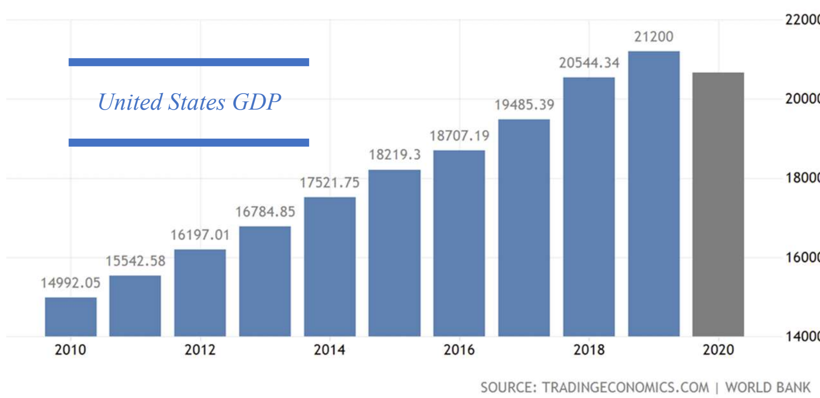
The stock was mixed on Wednesday with the S&P 500 falling 17 points, or -0.53% to close at 3190. The Dow Jones Industrial Average slid 282 points, or -1.04% to close at 26,990; however, the Nasdaq Composite gained 67 points, or 0.67%, closing above 10,000 for the first time at 10,020. Finally, the Russell 2000 sank 40 points or -2.63 to close at 1467.



The Federal Reserve announced today that they will keep the target range for its federal funds rate unchanged at 0 - 0.25 percent as expected. Chairman Powell, reiterated a phrase that he has often used to describe the stance of the Federal Reserve: "we are committed to using a full range of tools to support the US economy in this challenging time". That should be reassuring to all investors. The Federal Reserve cannot overcome economic and public health distress alone, it takes others, but they are a powerful ally for the capital markets specifically and the economy generally.

Relative to looking forward on interest rates, the Federal Reserve Chairman announced that they expect short term rates to remain at current levels through 2022. The Fed sees the U.S. economy shrinking 6.5% in 2020, compared to an expected 2.0% growth rate to begin the year. They also see the economy rebounding to a 5% growth in 2021 as compared to 1.9% expectation to start the year and then 3.5% growth in 2022. Chairman Powell explained that the economic projections were made with the "general expectation of an economic recovery beginning in the second half of this year and lasting over the next couple of years, supported by interest rates that remain at their current level near zero."



Here are the other projections that the Federal Reserve announced:

- **Unemployment:** 9.3% in 2020, 6.5% in 2021, 5.5% in 2022 and 4.1% in 2023
- **Core Inflation**: 1.0% in 2020, 1.5% in 2021, 1.7% in 2022

While projection long into the future seem pointless given the number of uncertainties swirling around the economy, it is, nevertheless very helpful to understand the Fed's baseline. Now deviations from the baseline tell us something.