

## What's the Federal Reserve's outlook for monetary policy?

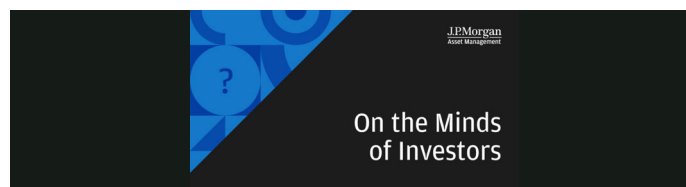
06/16/2021

Jordan Jackson

“We continue to expect yields will grind higher through the end of the year and strong economic growth accompanied by still relatively accommodative monetary policy will provide support to equity markets.”



**Jordan Jackson**  
Global Market Strategist



### Listen to On the Minds of Investors

06/16/2021

At the June meeting, the Federal Open Market Committee (FOMC) signaled a more hawkish stance towards its monetary policy outlook driven by a materially stronger growth and inflation outlook in the medium term. The committee voted to maintain the current federal funds target rate at a range of 0.00%–0.25% and reaffirmed its commitment to \$120bn in asset purchases per month, until the committee feels “substantial further progress” has been made towards its inflation end employment goals.

Although a technical adjustment, it also increased the interest rate paid on excess reserves (IOER) and the overnight reverse repurchases agreement rate (ON RRP) by 5 bps to 0.15% and 0.05%, respectively, in order to support smooth functioning in short term funding markets.

Relative to the April meeting, the statement language highlighted the continued improvement in economic conditions due to progress on vaccinations, but noted risks to the outlook still remain. Moreover, even as recent inflation readings have exceeded expectations, the committee still cites these higher prints as being driven by transitory factors.

Elsewhere, as highlighted in the table, the Fed delivered meaningful forward guidance by way of its updated summary of economic projections. Real GDP was upgraded from 6.5% to 7.0% y/y in the fourth quarter of 2021. It also lifted its 2023 GDP estimate by 0.2%, potentially considering some further fiscal support impacting the economy. Core and headline PCE inflation were revised markedly higher to 3.0% and 3.4% y/y respectively in

2021, and slightly higher in 2022 and 2023. Together, this reflects the strong improvement in the broader economy and aggregate demand as vaccinations allow for a robust reopening.

While the unemployment rate has fallen by 0.5% to 5.8% in the first five months of the year, the recent pace of improvement has slowed. Despite this, the committee still expects the unemployment rate will fall to 4.5% as projected in March, suggesting an average decline of 0.2% per month for the remainder of the year as the economy reopens and generous unemployment benefits expire. Overall, the statement and committee projections reflect the committee's view that fiscal support and continued vaccination efforts will provide a strong boost to growth and strengthen the recovery in the labor market, while potentially causing more persistently higher inflation than originally forecasted.

Perhaps most notable, the median dot plot now reflects two rate hikes sometime in 2023, up from no rate hikes just three months ago. Moreover, 7 of 18 members believe a rate hike might be appropriate sometime in 2022, up from four in March. While Chairman Powell suggested the median dot plot should not be viewed as a definitive path forward to short-term rates, it's clear the committee has shifted to a more hawkish stance, reflecting its more optimistic outlook on the economy.

Interestingly, when asked about the timing of the reduction in asset purchases, Chairmen Powell shied away from providing new details, but did say the committee was discussing tapering. Indeed, taking the committee's interest rate forecast and economic projections together, it seems tapering would be appropriate in 2022, especially given rate hikes are now expected in 2023. We now expect the committee will lay out its tapering plans at the September meeting.

The committee's more optimistic view on economic growth and inflation this year should prompt a reduction in asset purchases next year, followed by rate hikes in 2023. Yields across the curve jumped on the news as the Fed pulled forward its expectations of rate hikes. Equity markets slumped initially, although recovered shortly thereafter. We continue to expect yields will grind higher through the end of the year and strong economic growth accompanied by still relatively accommodative monetary policy will provide support to equity markets.

#### FOMC June 2021 Forecasts\*

Percent

	2021	2022	2023	Long Run
Change in real GDP, Q4 to Q4	7.0	3.3	2.4	1.8
March Forecast	6.5	3.3	2.2	1.8
Unemployment Rate, Q4	4.5	3.8	3.5	4.0
March Forecast	4.5	3.9	3.5	4.0
PCE Inflation, Q4 to Q4	3.4	2.1	2.2	2.0
March Forecast	2.4	2.0	2.1	2.0
Federal Funds Rate, end of year	0.1	0.1	0.6	2.5
March Forecast	0.1	0.1	0.1	2.5

Source: Federal Reserve, J.P. Morgan Asset Management. Data are as of June 16, 2021.

\*Forecasts of 18 FOMC participations, median estimate.

\*\*Green denotes an adjustment higher, red denotes an adjustment lower.

0903c02a82b2aa81

Article Tags: [Equity Markets](#), [Federal Reserve](#), [Inflation](#), [Federal Open Market Committee \(FOMC\)](#)

## EXPLORE MORE

### On the Minds of Investors

What investment questions are on the minds of investors? Explore the questions investors ask frequently and find answers at J.P. Morgan Asset Management.

[Read more >](#)

### Guide to the Markets

The J.P. Morgan Guide to the Markets illustrates a comprehensive array of market and economic histories, trends and statistics through clear charts and graphs.

[Read more >](#)

### Find opportunities in the recovery

Strategies that can capture the growth of tomorrow's markets and generate income in a low-rate world.

[Read more >](#)

This website is a general communication being provided for informational purposes only. It is educational in nature and not designed to be a recommendation for any specific investment product, strategy, plan feature or other purposes. By receiving this communication you agree with the intended purpose described above. Any examples used in this material are generic, hypothetical and for illustration purposes only. None of J.P. Morgan Asset Management, its affiliates or representatives is suggesting that the recipient or any other person take a specific course of action or any action at all. Communications such as this are not impartial and are provided in connection with the advertising and marketing of products and services. Prior to making any investment or financial decisions, an investor should seek individualized advice from personal financial, legal, tax and other professionals that take into account all of the particular facts and circumstances of an investor's own situation.

Opinions and statements of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice. We believe the information provided here is reliable but should not be assumed to be accurate or complete. The views and strategies described may not be suitable for all investors.

#### INFORMATION REGARDING MUTUAL FUNDS/ETF:

***Investors should carefully consider the investment objectives and risks as well as charges and expenses of a mutual fund or ETF before investing. The summary and full prospectuses contain this and other information about the mutual fund or ETF and should be read carefully before investing. To obtain a prospectus for Mutual Funds: Contact JPMorgan Distribution Services, Inc. at 1-800-480-4111 or [download it from this site](#). Exchange Traded Funds: Call 1-844-4JPM-ETF or [download it from this site](#).***

J.P. Morgan Funds and J.P. Morgan ETFs are distributed by JPMorgan Distribution Services, Inc., which is an affiliate of JPMorgan Chase & Co. Affiliates of JPMorgan Chase & Co. receive fees for providing various services to the funds. JPMorgan Distribution Services, Inc. is a member of [FINRA](#) [FINRA's BrokerCheck](#)

#### INFORMATION REGARDING COMMINGLED FUNDS:

For additional information regarding the Commingled Pension Trust Funds of JPMorgan Chase Bank, N.A., please contact your J.P. Morgan Asset Management representative.

The Commingled Pension Trust Funds of JPMorgan Chase Bank N.A. are collective trust funds established and maintained by JPMorgan Chase Bank, N.A. under a declaration of trust. The funds are not required to file a prospectus or registration statement with the SEC, and accordingly, neither is available. The funds are available only to certain qualified retirement plans and governmental plans and is not offered to the general public. Units of the funds are not bank

6/18/2021

What's the Federal Reserve's outlook for monetary policy? | J.P. Morgan Asset Management

deposits and are not insured or guaranteed by any bank, government entity, the FDIC or any other type of deposit insurance. You should carefully consider the investment objectives, risk, charges, and expenses of the fund before investing.

INFORMATION FOR ALL SITE USERS:

J.P. Morgan Asset Management is the brand name for the asset management business of JPMorgan Chase & Co. and its affiliates worldwide.

NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE

Telephone calls and electronic communications may be monitored and/or recorded.

Personal data will be collected, stored and processed by J.P. Morgan Asset Management in accordance with our privacy policies at <https://www.jpmorgan.com/privacy>.

If you are a person with a disability and need additional support in viewing the material, please call us at 1-800-343-1113 for assistance.

Copyright © 2021 JPMorgan Chase & Co., All rights reserved