[theme music]

A light gray screen with dark gray text that reads 'Federal Open Market Committee' scrolls across the screen in segments then scales down to the full title. Scene fades to white.

A male host named Tim Sustak sits in front of a white wall with a dark, wooden dresser behind him. Below him is a screen width gray graphic with a blue border on top and white letters that read, 'Federal Open Market Committee Update- Tim Sustak Chief Credit Officer September 17, 2020.

Tim: Hi, I'm Tim Sustak, chief credit officer with Vizo Financial, and this is your FOMC update for September 2020.

Tim: As expected, in its statement following the meeting, the Fed maintained the fed funds target range at a level of 0-25 basis points, as well as the rate on required and excess reserves at 10 basis points. The big news was the change in language designed to incorporate the Fed's new inflation averaging monetary policy framework.

Tim: What this means is that the Fed will allow inflation to run above its 2% goal for a period of time before raising rates, rather than raise rates in a preemptive strike to keep inflation from overshooting its goal. The official language that addresses this concept in the Fed's post meeting statement is as follows: "The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. With inflation running persistently below this longer run goal, the Committee will aim to achieve inflation moderately above 2 percent for some time so that inflation averages 2 percent over time and longer-term inflation expectations remain well anchored at 2 percent. The Committee expects to maintain an accommodative stance of monetary policy until these outcomes are achieved."

Tim: The September meeting also gave us an updated set of Fed economic projections. The dot plot, which gives us insight into where the Fed thinks rates are going, indicates that the Fed will likely keep the fed funds target at its current level through 2023. No participant sees a rate change through 2021, only one of seventeen sees an increase in 2022, and only four of seventeen see an increase in 2023. A look at what chairman Powell had to say at his post meeting press conference after the break.

Tim: In his press conference following the meeting, Chairman Powell indicated that economic activity has picked up from the depths of the second quarter; but, although the recovery has been faster than expected, the economy will not fully recover until people feel it is safe to get back to a broad range of activities including those services where people need to gather more closely. The Chairman said that roughly half of those jobs lost to the pandemic have been recovered, but that unemployment remains elevated and the Fed's projection is for a gradual decline to a median rate of 4% by 2023.

Tim: On the inflation front, the Fed does not see the target of 2% being reached until 2023 as well. The Chairman also reiterated his previous sentiment that additional fiscal support may be necessary for a full recovery, in addition to the Fed using its full range of policy tools. To that end, the Chairman indicated the Fed will continue to increase its treasury and agency mortgage backed security holdings in an effort to keep markets functioning and credit flowing. As to the Fed's updated monetary policy strategy, the Chairman said that, "We view maximum employment as a broad-based and inclusive goal and do not see a high level of employment as posing a policy concern unless accompanied by signs of unwanted increases in inflation or the emergence of other risks that could impede the attainment of our goals. And we believe that achieving inflation that averages 2 percent over time helps ensure that longer-term inflation expectations remain well anchored at our longer-run 2 percent objective. In turn, well-anchored inflation expectations enhance our ability to meet both our employment and inflation objectives, particularly in the new normal in which interest rates are closer to their effective lower bound even in good times."

Tim: So, the Fed is committing to keep rates lower for longer, likely through 2023 by the current projections, even if inflation runs past its 2% goal for a period of time. Though we are hearing that this is new policy framework, those of us that follow the Fed know they have been talking for a number of years about letting inflation run a "little hot" since it was having a hard time getting to target. Though now officially the playbook for monetary policy, I am not sure everyone in the market feels they got the enhanced forward guidance the Fed has been promising. That's the FOMC update for September. Thanks for watching and be well!

Fades to Vizo Financial logo V and a red heart and the words, "CUs" in green on gray background. The logo fades into the Vizo Financial logo. Vizo Financial logo fades out and disclaimer text appears on screen.