



Quincy Krosby's May 2021 Market Commentary: The Long Glide Path to Liftoff

Highlights

- **The Fed has maintained its steadfast position that “the ongoing public health crisis continues to weigh on the economy, and risks to the economic outlook remain.”**
- **Expectations are that by late summer tapering will be part of the Fed’s discussion if the FOMC sees “substantial” progress.**
- **Fed Chairman Jerome Powell has stressed that he will give the market a long lead time before the first stage of tightening begins, that is tapering.**

At the Federal Reserve’s Federal Open Market Committee (FOMC) meeting at the end of April, the Fed maintained its steadfast position that despite the successful vaccination campaign, increased government fiscal support, and an economy that is decisively rebounding, “the ongoing public health crisis continues to weigh on the economy, and risks to the economic outlook remain.” In terms of an expected bout of inflation, Fed officials have underscored that it will be “temporary,” leveling off once supply chains normalize, helping to reduce manufacturing input costs. During the press conference, Federal Reserve Chairman Jerome Powell characterized the economy as being in uncharted territory and said that “we’re making our way through an unprecedented series of events.”

But when it came to answering a raft of questions regarding the Fed’s plans for tapering the \$120 billion of monthly purchases of mortgage-backed securities and Treasuries, particularly as the labor market has been healing more quickly than initially projected, Powell reiterated the now-familiar response that “the economy is a long way from our goals, and it is likely to take some time for substantial further progress to be achieved.”

More specifically, to a question on scaling back the monthly bond purchases and the Fed’s timetable, which would signal the “pivot” in the ultra-accommodative monetary policy that matters to markets, he said: “It is not time yet” to even “talk about” slowing—“tapering”—monthly purchases. Some months ago at the press conference following an FOMC meeting, the chairman similarly commented that the FOMC had “not even begun to think about thinking about tightening monetary policy.”

With the forward 12-month P/E (price/earnings) ratio of the S&P 500 sitting at just over 22, the market is stretched compared with its 5-year average of 17.9, and with the 10-year average of 16. Powell has previously emphasized that he agreed that on a P/E basis the market is expensive, but given rock-bottom interest rates, more risk could be extracted from the market, and that rates will remain low for a long time.

The economy is rebounding at a robust and viable pace, and if the pandemic eases significantly, the Fed will be increasingly challenged to explain its reluctance to even “think about” slowing the pace of monthly purchases.

Read Quincy Krosby’s full May 2021 market commentary, “[The Long Glide Path to Liftoff](#).”

References include the following: Associated Press, Bank of America, *Barron’s*, Bespoke Investment Group, Bloomberg, CNBC, CNN, Cornerstone Macro Research, *The Economist*,

Evercore ISI, The Federal Reserve, *The Financial Times*, Fox News, *The Gartman Letter*, Goldman Sachs, *Kenneth Polcari Newsletter*, Morgan Stanley, *The New York Times*, *Real Money – TheStreet*, Renaissance Macro, Reuters, UBS and *The Wall Street Journal*.

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