



In a last-minute move, the Federal Reserve shifted its closely watched Jackson Hole symposium last week from in person to online. The change underscored how much the pandemic continues to present a challenge to public health and economic growth. And yet, the lingering health crisis gives the Fed an opportunity to continue its easy monetary policy, at least for now.

**Although the economy got off to a roaring start this year, the recent rise in Covid cases is dampening economic activity somewhat:**

- Visits to restaurants, shopping centers, movie theaters and other types of [retail](#) locations have declined in recent weeks, as have visits to transit centers, according to [Google mobility data](#).
- [Consumer confidence](#) plummeted from July to August, according to the University of Michigan's index, "recording the least favorable economic prospects in more than a decade."
- The [Manufacturing Outlook Survey](#) from the Federal Reserve of Dallas came in markedly lower month over month, though still strong by historical standards.

**While the continuing pandemic imposes very real and poignant human costs, the uncertainty it engenders gives the Fed some room to continue its easy monetary policy.**

- While the labor market has recovered substantially, there are 5 million fewer employees in the [service sector](#) alone compared to pre-pandemic levels and [long-term unemployment](#) remains elevated, as Fed Chair Jerome Powell noted last week.
- Consumers no longer appear concerned about rising prices. [Google searches for "inflation"](#) peaked in early May at the highest rate since 2004 and since then have fallen dramatically.
- Abating inflation concerns appear to be confirmed in [other data sets](#) as well, including the TIPS market, consumer surveys and economist surveys.

**So what exactly did Powell say about inflation and the labor market at the [virtual Jackson Hole symposium](#)?**

- The Fed chair noted a "Covid-constrained supply side unable to keep up with demand," leading to "elevated inflation in durable goods." In other words, yes, we've experienced higher prices, but only temporarily.
- He also noted that the ongoing pandemic continues to make labor markets "turbulent" and threatens economic activity. It is this area of jobs where Powell believes there is more work to be done, making it too soon to step on the monetary brakes.

By signaling a gradual approach to normalizing policy, the Fed is also trying to lessen the risk of a taper tantrum like the one that took place eight years ago:

- In May 2013 during Congressional testimony, then-Chairman Ben Bernanke hinted that the central bank would reduce the volume of bond purchases begun during the global financial crisis. The suggestion surprised markets and triggered a bond-market selloff that pushed the 10-year yield up more than 100 basis points during a 7-month period.
- The broad stock market gained handily during that period, but not without a fair amount of volatility, including a 7% decline toward the end of 2014.

It's fair to assume that today's Fed leaders have learned from Bernanke's experience and are working to telegraph policy changes well in advance of implementation. In the meantime, given the continuing momentum in the economy and the Fed's watchful, but slow approach to withdrawing stimulus, we believe the environment remains constructive for stocks and other risk assets.



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