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Instant Thoughts

29 April 2021

Beware the Sting in the Tail

- **Fed Chair Powell has perfected the art of buying time by adding a dovish qualifier to every upbeat comment he made.**
- **The Fed may get what it wants for now. But British statesman Francis Bacon said it best, “Hope is a good breakfast, but it is a bad supper.” We have been doing this for long enough to know that confidence can be ephemeral.**
- **Taper talk will begin at the hawkish fringe, and then it will broaden out to the centrist. Another brutal market adjustment would come the day centrist’s tone changes.**

Since the Fed last met in March, more signs point to the U.S. economy has been firing on all cylinders. This is a bittersweet moment for the Fed, which now faces an awkward dilemma about how to wind down the QE without causing a stir.

Chair Powell has perfected the art of buying time by adding a dovish qualifier to every upbeat comment he made: Yes, jobs had been created, but it remained far short of its pre-COVID peak; sure, inflation was rising, but it was all transitory. He concluded it will be “some time” before achieving “substantial further progress”, an all-important phrase missed from his recent speech at the Economic Club of Washington and the 60 Minutes interview.



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You have to excuse him for not allowing Fed watcher any way of twisting his comment to sound hawkish. Powell is first a card-carrying lawyer and second, he was in the same room with former Chair Bernanke when Bernanke's off-the-cuff comment marked a splash in 2013. His poignant position, however, does not change the fact that there's a sting in the tail.

The Fed may get what it wants for now. But British statesman Francis Bacon said it best, "Hope is a good breakfast, but it is a bad supper." We have been doing this for long enough to know that confidence can be ephemeral. Just how lumber and copper have all been boosted in lockstep by "transitory factors" is a head-scratcher. Taper talk will begin at the hawkish fringe, and then it will broaden out to the centrist. Another brutal market adjustment would come the day centrist's tone changes.



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