FINANCIAL STRATEGIES FOR STRONGER COMMUNITIES

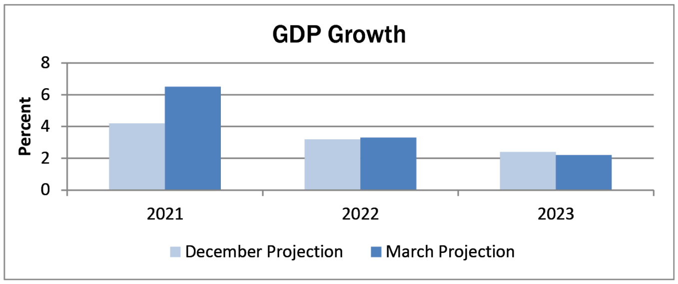
Fed Projects Improving Economic Conditions

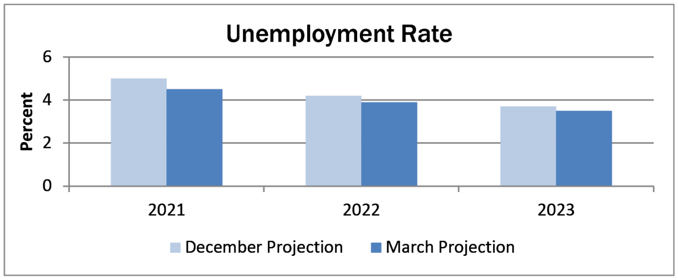
At the conclusion of its March meeting, the Federal Reserve pledged to maintain its highly supportive monetary policy until the U.S. economy recovers further from the effects of the coronavirus pandemic. Most of the 18 Fed officials at the meeting still expect to hold short-term interest rates near zero through 2023, according to updated economic projections released Wednesday. Positively for short-term investors and savers, seven Fed officials now expect to start lifting rates in 2022 or 2023, up from five in December. Showing that some Fed members project “liftoff” even sooner, four officials now expect a rate hike next year, up from only one in December.

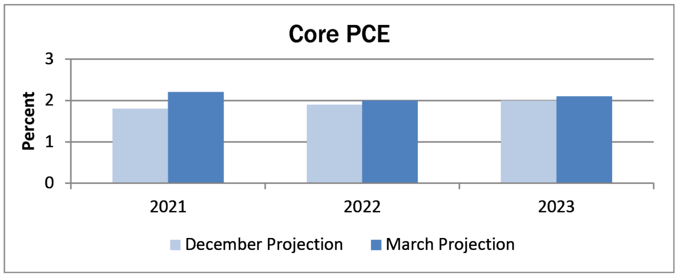
The Fed also plans to continue buying at least $120 billion per month of Treasury debt and mortgage-backed securities until “substantial further progress” is made on economic growth, employment and inflation. The Fed’s economic projections are a growing focus of market participants. While the headlines of low rates and continued bond buying remain very dovish, these projections allow Fed observers to gain a better understanding of how Fed officials gauge growth and risks.

The Fed’s projections show they expect generally stronger economic growth, higher inflation and lower unemployment in the years ahead than they did in December. These changing projections may indicate that while the Fed sees a benefit in gradual changes in policy and communication, Fed officials are becoming more optimistic which could lead to more officials calling for rate hikes. Their median projections for GDP growth, the unemployment rate and inflation as measured by Core Personal Consumption Expenditures (Core PCE) all improved from December.

We see the upgrade to the inflation and employment forecasts as indications that a rate hike could occur before 2024. While both of these measures are extremely important, boosting inflation may be the larger challenge. The Fed’s statement says inflation needs to be at 2.0% and on track to exceed the target for some time before they hike. The current forecast shows this to be the case. If 2% inflation can be reached or exceeded over the next year, we expect more Fed officials to call for a rate hike in late 2022 or 2023.







2135 City Gate Ln, 7th Fl Naperville, IL 60563 T 630.657.6400 W pmanetwork.com

Contact Information

JOHN H. HUBER, CFA
Senior Vice President, Chief Investment Officer

PMA Asset Management, LLC
2135 CityGate Lane, 7th Floor Naperville, IL 60563

Tel: 630.657.6510
Email: jhuber@pmanetwork.com

PMA®