

Casey Mullooly: So, we're recording this on the day, on Fed Day. Not sure if you celebrate or not, but happy Fed Day to everyone out there. So, we're referencing the meeting of the Federal Reserve. So the final time they're going to meet this year in 2021, and it was kind of a big meeting with the last couple inflation readings being higher than anticipated. Everyone was really paying attention to what the Fed was going to come out and say at this meeting.

Casey Mullooly: So basically they said two things. They're going to speed up their tapering of their asset purchases, and that is gonna be set to end in March of 2022, which is sooner than expected. And also, they're open to raising rates in 2022, three times. They didn't lay out a specific plan of what they're gonna do, but they said that is on the table, which again is sooner than expected.

Casey Mullooly: I think in the November meeting, it came out and half of the Fed chairs said that they didn't think they were going to raise rates at all in 2022, and half of them thought that they would, so the Fed is kind of speeding up their timeline here based on the data that's coming out. There's been a lot of focus on this the last couple of months. Is this an appropriate plan of action or do you think that they should be doing something else?

Brendan Mullooly: Seems pretty reasonable to me just based on them, obviously showing us that they're taking inflation seriously and that they're paying attention, but also that they're not going to overreact as they haven't for the entire back half of this year, and rush into something like hiking rates or ending the asset purchase programs faster than they need to. Because I know it feels like we've been talking about inflation forever, but it's really been less than six months since this has been in the headlines making a difference or people paying attention to it, at least. So, it seems like reasonable course of action to me.

Tom Mullooly: I think it was Josh Brown, friend of the firm, who reminded all of us recently, that the market likes certainty. It just doesn't like uncertainty at all. And I think that the immediate response from the headlines has been pretty positive. The Fed announced that they're doubling the pace of the taper and we'll explain what that means. And they also laid out a roadmap for three rate hikes in '22. They were kind of squishy previously to today, saying, two, maybe three rate hikes and then also laid out the potential for three rate hikes in 2024.

Tom Mullooly: Interesting that The Fed would get to the supposed terminal rate, pretty quickly in two short years. But they also added that they're not going to raise rates until the labor market improves to the point of maximum employment. Now, before the pandemic began, we were right there, at what they'd consider the point of maximum employment. Unemployment got under 4%, it was 3.9% and we are not there yet, but we're close. There's still a lot of jobs available, but there's still a lot of people that are not working. And so, they have some work to do but they also gave themselves that exit or escape hatch by saying, we're not going to raise rates until we see improvement in the labor market.

Brendan Mullooly: So the Fed uses a bunch of things in terms of actual policy changes, like the Asset Purchase Programs, things that they invent out of thin air, like buying ETFs, last year when they needed to, actual interest rate policy. But then another thing that they do that is just as effective, is just talking about stuff. That's all they're doing today. Obviously they're picking up the pace of the taper. However,

all they did was talk about interest rates in 2022. They're they're not required...

Casey Mullooly: Sometimes that's good enough.

Brendan Mullooly: No, right. That's what I'm saying is they just talked about it. It doesn't actually mean anything.

Tom Mullooly: I believe Yellen did the same thing in 2015.

Casey Mullooly: I think it's called jaw boning.

Tom Mullooly: That's right. It is.

Casey Mullooly: So, that is one of the Fed's quote unquote tools is coming out and talking about these policy changes, but not necessarily doing that.

Brendan Mullooly: We should, we should take that though for what it is and recognize they're just talking about stuff and like, I'm not saying that we shouldn't pay attention. However, if you're reacting or getting really wound up about what they've talked about, you need to relax.

Tom Mullooly: You're making a mistake. Because we don't have the official dictate that this is going to happen. One of the things they had, Bloomberg had two folks on there, Scott Miner, who in my opinion, just seems to be a PERMA bear and Diane Swonk, who seems to be a little more levelheaded, but she raised really good point because they're talking about tapering. And then they're also talking about, they laid out a roadmap for potentially raising rates over 22 and into 2023.

Tom Mullooly: But one of the things that The Fed did not address is the fact at the balance sheet at The Fed has gotten so very large that, are there plans for somewhere in the future for The Fed to... Well, first they're going to stop this buying bonds in the open market. And then they're talking about raising rates, but are they going to also sell bonds that are on their balance sheet now, which is effectively another way of raising rates? So, are they going to amplify rate hikes by selling bonds in the future? Or is The Fed going to continue to have this gigantic balance sheet, which they've never had before? I mean, trillions of dollars.

Brendan Mullooly: Also, we need to do those all in the order that we think they need to do them in. They don't have to do anything. They can hike rates before they're done with the tapering or before they start otherwise unwinding the balance sheet. So, I think that we take for granted that they have to do things in a certain order. And I don't think that that should necessarily be the case.

Casey Mullooly: I also think it's about preserving their options in terms of what they can do in the future. It's been said that they're kind of, I know we joked about this before we turned the mic on that you've been hearing this for 35 years, that The Fed was stuck between...

Brendan Mullooly: Fed's out of ammo.

Casey Mullooly: Right. But it's, so they were basically, the way that it was positioned in the media was, if The Fed raises rates, the market's going to tank, but if they don't raise rates, then they've lost control and they don't have a grip on inflation and the economy is just running wild. So they're damned if they do, they're damned if they don't.

Tom Mullooly: And that's a really good point because when they, The Fed came out with their announcement, this is now about 30 minutes ago. They said that, yeah. They're going to double the rate of the taper. So they're buying less bonds at a faster rate and they want to be done with this by March. Good. But one of the other things that they pointed out is they see the rate of inflation for 2021 coming in for the whole year, at 5.3%. This is really important because right now we get these monthly numbers and they are comparing 12 months ago through 12 months today, what the rate of inflation is. At the beginning of the year, there was inflation but nothing like we're seeing now. Right now, we're seeing a lot of inflation but for the full year, they feel inflation's going to come in at 5.3%. And next year they're forecasting the inflation rate to be half of that 2.6%.

Brendan Mullooly: What was the year over year rate 12 months ago? It was zero. And so, if you take zero and the rate for this year and divide it to get the rate of inflation over the last two years, it's still a very reasonable number of something like two and a half percent loosely.

Casey Mullooly: Right. Yeah. I mean, you have to consider what was, like you talked about, what was going on at the back half of last year. We were still kind of in the midst of, I mean, we're still in the midst.

Tom Mullooly: We didn't even have a vaccine.

Casey Mullooly: Yeah. COVID was the COVID situation was, was way more bleak. The restrictions were still in place. And none of this reopening, we were still like, when are we going to reopen? When are we going to reopen? And some of those concerns are still lingering but it's the year over year comparison. So, next year's numbers are going to be compared to this year's numbers. So the rate of two change isn't going to be as great as it is. So yeah, The Fed has to keep that in mind when they're making these decisions, they don't want to do things too quickly and pump the brakes on the recovery before it's even started getting going.

Tom Mullooly: I know that Scott Miner also commented that and he's been very bearish for the last few years, but he said, if The Fed does this, if they slow the taper down and then start raising rates aggressively that he feels that the economy will be in a recession by 2023, which I think is outrageous to say but I will give Miner some credit because he does study history. And one of the things that he raised, which was actually pretty good was he mentioned that the previous two pandemics the one in 1917, 18, 19, Spanish Flu and then also the one in the late 1960's, which was called the Hong Kong Flu. What we saw were labor shortages.

Tom Mullooly: So, people couldn't come back to work or had lost their job. We had labor shortages but we didn't have any inflation in the system. This is very different. What's going on. And I hate to use the

phrase this time it's different but technology has allowed a lot, a huge percentage of the economy to continue working and work from home or work remotely. And so, it really... You can't rely on what happened in previous pandemics to kind of use as a roadmap or what the economy will do.

Brendan Mullooly: That was 100 years ago.

Tom Mullooly: Right?

Brendan Mullooly: So, we may be able to glean something from looking at that and again, in the 60's but most people who are even talking about reliable stock market data, don't quote stuff from before the 60's. So I would take that with a grain of salt and we're not living in the same world that we were then.

Tom Mullooly: Interesting to see the whip around from the indices, with the news. So I just jotted these down at five minutes to two, right before the announcement came out. The Dow was down 62 points. The S&P was down nine. NASDAQ was down 95 points at 10 after two, 15 minutes later, this is 10 minutes after the headlines came out. The Dow Jones was now up 128 points, a swing of almost 200 points. The S&P was up 21 points. That's a swing of 30 points from down nine to up 21, similar kind of move in the NASDAQ from down 95 to up 50. And then, just before we walked into here to record, they had already sliced those gains in half. Now we get a lot of whoopy-ness on Fed Day.

Tom Mullooly: That volatility seems to just happen with these Fed meetings, because people will react. Traders, not investors but traders will react on the headline and then they'll go back and they'll actually read the statement and then they'll think about it. And then, sometimes they wind up reversing course. And so, it's interesting to see, then they go into this press conference, which typically goes from 2:30 to 3:30. Now, by the time this is all produced, we'll have the benefit of hindsight and be able to see what the takeaway really is. But for traders, this is Bonanza week because we've got year end, we got quarter end, year end, Fed meeting, option expiration all happening at the same time. So, plenty of volatility to trade.

Casey Mullooly: Yeah. I think like you said a little bit earlier, how the market just doesn't like uncertainty. I think a lot of people expected this plan of action from The Fed and were not going to make predictions on how the market's going to react. Obviously, it's been swinging around a lot lately. I mean, the last couple weeks we've seen, it's either been up 2% or down 2%. It's been, like you said, pretty whippy. It's definitely going to be an interesting end to the year. And we'll see how this, this all shakes out in 2022.

Tom Mullooly:

One last thing I wanted to say is Brendan raised a really good point a couple of moments ago, where sometimes talk is really all The Fed needs to do. I think it was 2015 where Janet Yellen said, hey, we are officially going to end the taper, the taper that Bernanki began. She ended the taper and said, now everybody get ready. We're going to raise rates at some point soon. But she never said when. And she said in 20, I think it was 2015 where she said, it's probably going to be by the end of the year. And then she didn't raise rates at all. She didn't raise rates until the end of 2016 a full year later. And then, while

The Fed was raising rates in 2017 markets seemed okay, we all lived.

Brendan Mullooly: Yeah, they actually did hike at the end of 2015. And then they did at the end of 2016. And then they did four times in 2017 and three times in 2018. And then they stopped and the market was fine.

Casey Mullooly: What did the market do in 2017?

Brendan Mullooly: It was up 22%

Casey Mullooly: Decent.

Casey Mullooly: You know, like I said, it's been, there's been a lot of emphasis on this meeting, but we're not trading these decisions. We're not traders, we're long term investors, we're financial planners. We do think that it's important to share our thoughts on these topics, but when it comes to the day to day decision making, there's not much to do. And sometimes, most times that's the right plan of action.