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# Hiking in Jackson Hole

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I prepared the notes for this newsletter while vacationing in, of all places, Jackson Hole, WY, as my family explored the national parks of Yellowstone and Grand Teton. In just one week, probably right about when the final draft of this blog is posted, the Fed will be hosting its widely-anticipated annual Jackson Hole Economic Symposium which should be from this very same spot but switched to virtual at the last moment.

At center stage will be any reference to the timing and magnitude for reducing asset purchases (tapering QE) which will give some hints to when the Fed may be hiking rates in the future. Concerns about the Delta variant are clouding the picture for global growth just like the California / Oregon wildfires are currently clouding my view of what would be some of the most majestic landscape on Earth.

As noted by Benjamin Wallace (Research Director and Portfolio Manager, Grimes & Company) in *Focal Point: Taper Tsunami on the Horizon?* the Fed needs to take its foot off the gas pedal (taper the QE programs) before applying the brake (raising short term interest rates). While traditional monetary policy of managing short-term borrowing costs via the Fed Funds rate impacts spending versus savings in order to stimulate or slow the economy, long-term bond purchases (QE) act like a supercharger by encouraging higher levels of leverage and injecting billions of dollars and capital into the banking system. QE needs to be tapered before short term rates are raised. Like we witnessed in the throngs of both the Global Financial Crisis (2008/9) and last year during the Pandemic Panic, QE programs provide a predictable floor under the bond market during the most calamitous episodes of market routs, but long periods of QE impact asset prices rather than economic growth as discussed in this past blog, "*Prolonged Extreme Monetary Stimulus Widens the Wealth Gap*".

Since last March the Fed has been purchasing $120 billion of bonds each month. Expectations are that they taper these purchases by $15 billion to $20 billion each month which, by my math, leaves us at six to eight months to eliminate new QE purchases. While the taper will be discussed at the Jackson Hole meeting, it is more likely to be formally announced at one of the Fed's meetings between September and December implying that, at the earliest, higher short-term rates could come in the third quarter of 2022, barring any unforeseen setbacks. In the grand scheme of things whether the taper starts in the fourth quarter or in January really does not matter, just as higher rates in Q4 2022 or sometime early

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2023 probably makes no difference considering the very long runway markets have to anticipate the move. Nonetheless, every economic statistic released between now and then will be scrutinized as to the implication on how it may impact the Fed's timing.

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