The Fed's Taper Rehearsal

The talk is of tapering, and it's making investors nervous.

Provided by DSA Financial Group

The Federal Open Market Committee (FOMC) released the minutes of its April meeting last week. The report suggested that should the economy continue to make progress, it may be time to adjust the pace of the Fed's monthly bond purchase program.[1]

With inflation appearing to accelerate, this is the first sign that the Fed is considering such a scaling back. While such a change might be inevitable, it comes with no timetable and no indication that the tapering is imminent.

This doesn't calm investors' nerves. The markets had a quick reaction to the tapering chatter, but soon resolved. Memories cast back to the so-called Taper Tantrum of 2013, when the Fed similarly changed direction after years of boosting the economy with easy money. Such mini-dips have happened from time to time since then.[2]

It's important to keep in mind that these "tantrums" are typically the result of the Fed being inconsistent or undisciplined with their messaging. When the Chair or local Fed Chiefs speak, the market listens. When they say something that's even interpreted as in a tapering mood, there's an inevitable reaction.

Ultimately, the tapering will happen, though it's possible that it may not come for quite a while. It's a bit like the Sword of Damocles, complete with the sound of a ticking clock. It's also possible that a slip of the tongue could inspire days of turbulence between now and then.

In addition to its other duties, the Fed has been given the mandates of maintaining stable price levels and maintaining moderate, long-term interest rates. Your financial strategy has been crafted with the understanding that the Fed from time to time will make adjustments in interest rates to accomplish its goals. That said, whenever the news brings you questions or concerns, I welcome a chance to discuss them with you.

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Citations
1. CNBC.com, May 19, 2020
2. CNBC.com, May 21, 2020