# Thackray Report

## FOMC Meetings Not Always Stock Market Direction Makers

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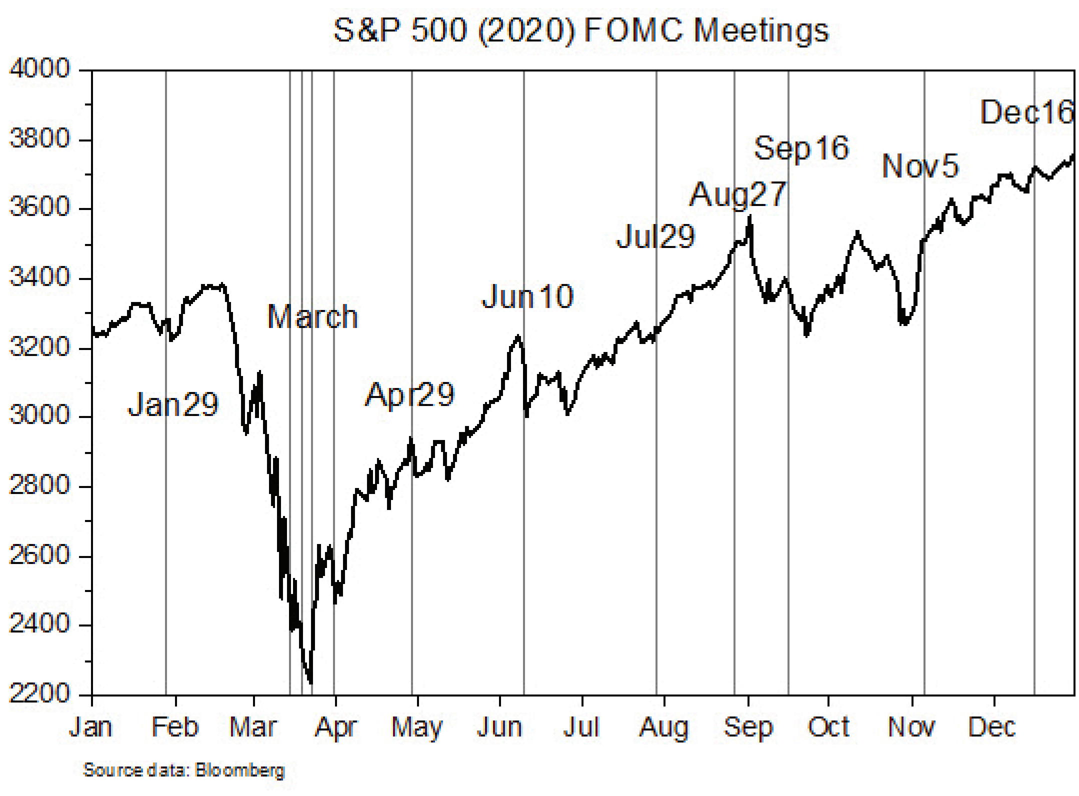
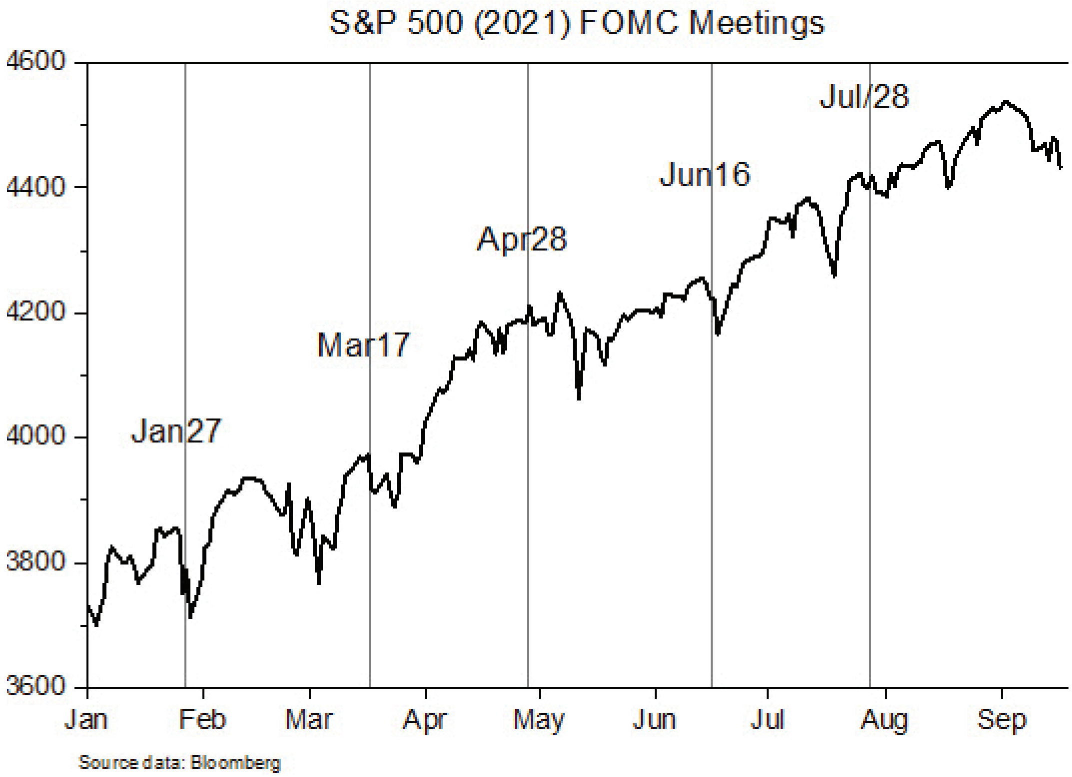
*Investors are looking for the Federal Reserve to provide direction in the stock market. Given that the Federal Reserve will probably take baby steps in any tapering plan, investors should probably not put too much short-term emphasis on the Federal Reserve.*

A lot investors are anxiously waiting for the Federal Reserve to make its next pronouncement after its meeting on Wednesday September 22. If investors are looking for the Federal Reserve to set a clear path forward and provide the stock market with an impetus for a sustained move, they could be disappointed. The Federal Reserve is in the obfuscation business. Their job is to provide a muddy water analysis and nudge investors in the direction of future policy changes.

In 2020, in unusual circumstances, the Federal Reserve was clear that they were going to flood the market with excess liquidity. Even in this environment, the stock market tended to consolidate after Federal Reserve meetings. March was largely the exception (see graph below). There were two other sustained moves after the FOMC meetings, July and November. The November stock market rally was largely predicated on Biden's election win. The point is that the Federal Reserve did not consistently provide fodder for a stock market rally right after its meetings. This was despite the Federal Reserve "leaving its foot to floor," with sustained excess stimulus.



In 2021, the S&P 500 has tracked a fairly straight line upwards in a channel (up until recently). Along the way, the stock market did not overwhelmingly react strongly to Federal Reserve meetings. There is not a clear pattern of the stock market moving higher: sometimes it moved higher, sometimes it corrected for a few days and then moved higher and other times it consolidated (see graph below).




So where do we stand now with the Federal Reserve? Currently, Powell has stated that raising its federal funds rate at this time is off the table. There have been mild hints at tapering in the future. It should be remembered that the Federal Reserve has been artificially boosting the economy and markets with huge amounts of liquidity which is arguably excessive. Unhealthy distortions are popping up. This is particularly true in the housing market, where the Federal Reserve is buying $40 billion worth of mortgage back securities on a monthly basis. Given that the US is in a housing bubble, it hardly makes sense to keep driving mortgage rates to extreme low levels and create an atmosphere of speculation in the housing market.

The Federal Reserve has started to talk about the possibility of tapering in the near future. It should not be expected that the Federal Reserve will flick a switch and start tapering excessively. Powell learned his lesson in 2018 when he had to reverse course on raising the fed funds rate after "aggressively" trying to get to get the rate to a more natural level.

Powell has now become "Yellenized." If you remember back to the time when Yellen was the chairperson of the Federal Reserve, the economy was roaring higher and it took Yellen forever to raise rates and when she did, it was at a snail's pace. Yellen was a lot of talk and no action, or at least very little action and only when she absolutely had no choice. I doubt Powell will follow his 2018 path, it is more likely that the Federal Reserve will move at a snail's pace in taking any action. Don't forget, if the Federal Reserve does not like how investors have perceived its pronouncements at its meeting, it will send out the governors for speeches and interviews in the following days and to meld investor's perceptions to a desirable position.

Maybe the stock market goes down after this week's Federal Reserve meeting. This year, after most of the FOMC meetings, the stock market has headed lower for a few days. It does not necessarily mean that the stock market will continue lower for an extended period. There are other factors at play.

The economy has been showing signs of slowing, which has been weighing on investors' minds, dampening enthusiasm to be invested in the stock market. After the economy being artificially stimulated since March 2020, maybe peak growth has taken place and investors need to adjust to slower growth in the future. We are on the doorstep of Q3 earnings being released. With the nominal growth rates on a year-over-year basis expected to decline from Q2, maybe investors will become more subdued. The point is that if the Federal Reserve launches a campaign of "baby steps" tapering, it will probably be other factors that drive the markets in the near future.

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