CETERA® INVESTMENT MANAGEMENT

COMMENTARY

01/25/2021

What to Expect from the First Fed Meeting of 2021

- No policy changes are expected from this meeting.
- The press conference will likely reiterate the need for fiscal stimulus.
- To avoid another "taper tantrum," we expect Powell to reinforce low rate policy.

This week, all eyes will be on this year's first Federal Open Market Committee (FOMC) meeting. Led by Jerome Powell, the FOMC sets the direction of monetary policy (i.e. raising or lowering interest rates). While no policy changes are likely, we expect Powell to give us the Fed's outlook for the economy, pressure senators who recently pushed back on a fiscal stimulus relief package, and reinforce the message that the Fed will not be tightening monetary policy any time soon.

When the FOMC meets Tuesday and Wednesday, it will likely be a low-key event with little surprises. We expect the Fed to leave current policies unchanged given the uneven economic recovery that we continue to see in the near-term (weak spending on services and still elevated unemployment levels). On the other hand, the post-meeting press conference may be a different story.

This weekend, a bi-partisan group of 16 budget-conscious senators pushed back against the $1.9 trillion stimulus package. With Democrats holding a razor-thin majority in the Senate, this news increases uncertainty around the relief package's current form and timing. As Chairman Powell has done so many times and with increasing insistence each time, we expect him to continue to point to the need for stimulus and highlight the Fed's commitment to keep borrowing costs of the debt caused by this low. These would echo the comments made by Janet Yellen in her Treasury secretary confirmation hearing last week when she repeated President Biden's call to "act big" on fiscal stimulus. She also noted, *with the interest cost low,* even though the debt has increased significantly over the past year, more stimulus can be provided. Both Yellen and Powell remain on the same page – regardless of the financial cost, they would like to support the economy until it is self-sufficient.

More fiscal stimulus has led to some speculation that the ensuing strong economic recovery could lead the Fed to withdraw support sooner than expected. A more economically optimistic view could bring forward expectations of unwinding quantitative easing (QE) and maybe higher interest rates. However, we expect Powell to also use the press conference to reinforce the message that the Fed will not be unwinding its balance sheet, otherwise known as tapering, anytime soon. The Fed wants to avoid another "taper tantrum" that hurt markets in 2013 when investors learned that the Fed was slowing its QE program and panic caused a sharp spike in yields. Having learned from mistakes from predecessors, we expect Powell to add his support for more fiscal stimulus and, despite the possible ensuing rise in yields, to reassure financial markets that such action will not prompt the Fed to tighten monetary policy any time soon.

With the economy following our 2021 blueprint, where an uneven economic recovery gets replaced by a broadening recovery, expect market volatility to stay elevated as this transition takes place. In these times, your financial professional can help you stay focused on your long-term risk and return goals and help you with your personalized investment objectives.

About Cetera® Investment Management

Cetera Investment Management LLC is an SEC registered investment adviser owned by Cetera Financial Group®. Cetera Investment Management provides market perspectives, portfolio guidance, model management, and other investment advice to its affiliated broker-dealers, dually registered broker-dealers and registered investment advisers.

About Cetera Financial Group

"Cetera Financial Group" refers to the network of independent retail firms encompassing, among others, Cetera Advisors LLC, Cetera Advisor Networks LLC, Cetera Investment Services LLC (marketed as Cetera Financial Institutions or Cetera Investors), Cetera Financial Specialists LLC, and First Allied Securities, Inc. All firms are members FINRA / SIPC. Located at 200 N. Pacific Coast Highway, Suite 1200 El Segundo, CA 90245-5670

Disclosures

Individuals affiliated with Cetera firms are either Registered Representatives who offer only brokerage services and receive transaction-based compensation (commissions), Investment Adviser Representatives who offer only investment advisory services and receive fees based on assets, or both Registered Representatives and Investment Adviser Representatives, who can offer both types of services.

The material contained in this document was authored by and is the property of Cetera Investment Management LLC. Cetera Investment Management provides investment management and advisory services to a number of programs sponsored by affiliated and non-affiliated registered investment advisers. Your registered representative or investment adviser representative is not registered with Cetera Investment Management and did not take part in the creation of this material. He or she may not be able to offer Cetera Investment Management portfolio management services.

Nothing in this presentation should be construed as offering or disseminating specific investment, tax, or legal advice to any individual without the benefit of direct and specific consultation with an investment adviser representative authorized to offer Cetera Investment Management services. Information contained herein shall not constitute an offer or a solicitation of any services. Past performance is not a guarantee of future results.

For more information about Cetera Investment Management, please reference the Cetera Investment Management LLC Form ADV disclosure brochure and the disclosure brochure for the registered investment adviser your adviser is registered with. Please consult with your adviser for his or her specific firm registrations and programs available.

No independent analysis has been performed and the material should not be construed as investment advice. Investment decisions should not be based on this material since the information contained here is a singular update, and prudent investment decisions require the analysis of a much broader collection of facts and context. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. The opinions expressed are as of the date published and may change without notice. Any forward-looking statements are based on assumptions, may not materialize, and are subject to revision.

All economic and performance information is historical and not indicative of future results. The market indices discussed are not actively managed. Investors cannot directly invest in unmanaged indices. Please consult your financial advisor for more information.

Additional risks are associated with international investing, such as currency fluctuations, political and economic instability, and differences in accounting standards.

A diversified portfolio does not assure a profit or protect against loss in a declining market.