

GIAM Macro & Market Research- Market Commentary

What to expect from Jackson Hole: little news on tapering, more details on the policy framework

- **Despite the strong expectations, Fed Chair Powell's speech at the Jackson Hole conference will likely be short on details on tapering the Fed's asset purchases amid persistent risk from rising Covid cases and economic uncertainties persist.**
- **If the Delta variant does not prove too harmful, we expect a clear warning on imminent tapering in September, an announcement in November, followed by an implementation in December.**
- **Powell is likely to take the opportunity for further clarifying some key aspects of the Fed policy, especially stressing the distinction between asset purchase tapering and rate hikes.**

Expectations are high about the speech Chair Powell will deliver on Friday evening at the annual Jackson Hole Economic Policy conference. However, we think that those expecting clear communication about the shape and timing of the tapering of asset purchases may be disappointed, for two main reasons:

- The recent data remain strong, but momentum is receding (see table at the bottom) and inflation fears have not surged. Moreover, the Covid Delta variant is spreading fast, increasing the risk of partial lockdowns in some large states. The July employment data were very encouraging, but the participation rate, which is one of the benchmarks the Fed uses to assess the state of the labour market, remains depressed
- The FOMC (which ultimately decides on tapering) has not had the opportunity to reassess the situation, to see how it stacks up with the rosy view of the economy painted in the minutes of the July meeting. Moreover, the minutes themselves clearly stated that there is not yet a timeline for tapering.

The September 22 meeting will be a more appropriate occasion to warn about the forthcoming tapering, as it will also feature the updated growth, employment and inflation forecasts. Our baseline, which has the Delta variant remaining under control, foresees a formal announcement in November, followed by an implementation in December.

While not a market mover, the speech will remain of interest as it will give Powell the opportunity to further clarify some aspect of the Fed policy:

- There could be a partial assessment of the economic situation, broadly along the lines of the July meeting. An assessment on how the evolution of the labour market stack up with the Fed's view of full employment. The transitory inflation mantra should be reiterated.
- In line with the July minutes, Powell will likely sharpen the distinction between removing the stimulus via tapering and genuinely tightening financial conditions by raising rates (something that we do not expect before mid-2023). This should help minimise the financial market impact of tapering.
- In the end Jackson Hole is an academic conference and therefore chair Powell will likely seize the opportunity to detail the Fed's view on the role of asset purchases in supporting the economy, as the tool has become mainstream.

Variable	July FOMC meeting	Latest	Chg.
Real Activity			
Weekly activity index (scaled to yoy GDP)	9.0	7.8	-1.2
ISM - Manuf	60.6	59.5	-1.1
ISM - Services	60.1	64.1	4.0
Macro Surprises	3.1	-45.5	-48.6
Labor Market			
Payroll growth (3 mth. MA)	556	832	276
Unemp. Rate	5.8	5.4	-0.4
Unemp. Rate (broad)	10.2	9.2	-1.0
Hourly wages, % yoy (3 m. MA)	2.7	3.6	0.9
Prices			
Core CPI	3.8	4.3	0.5
Core PCE	3.4	3.5	0.1
Trimmed PCE	1.9	2.0	0.1
U. Mich 5 yr exp.	2.8	3	0.2
NY Fed 3 Y exp.	3.55	3.7	0.2
5Y5Y fwd exp.	2.1	2.1	0.0
Financial Conditions			
Chicago Fed index*	-0.71	-0.68	0.03
10 yr. Treasury	1.23	1.27	0.04
- Risk neutral Component	1.36	1.45	0.09
- Term Premium	-0.13	-0.18	-0.06
Yield curve (10Y - 2Y)	1.03	1.06	0.03
S&P 500	4401.5	4486.2	1.9%
Trade Wighted Dollar	120.0	120.2	0.2%
WTI Crude Oil	71.7	67.7	-5.5%
* Decrease: looser conditions			

Author:

Paolo Zanghieri

paolo.zanghieri@generali.com

www.generali-investments.com

This document is based on information and opinions which Generali Insurance Asset Management S.p.A. Società di gestione del risparmio has obtained from sources within and outside of the Generali Group. While such information is believed to be reliable for the purposes used herein, no representation or warranty, expressed or implied, is made that such information or opinions are accurate or complete. The information, opinions estimates and forecasts expressed in this document are as of the date of this publication and represent only the judgment of Generali Insurance Asset Management S.p.A. Società di gestione del risparmio and may be subject to any change without notification. It shall not be considered as an explicit or implicit recommendation of investment strategy or as investment advice. Before subscribing an offer of investment services, each potential client shall be given every document provided by the regulations in force from time to time, documents to be carefully read by the client before making any investment choice. Generali Insurance Asset Management S.p.A. Società di gestione del risparmio may have taken or, and may in the future take, investment decisions for the portfolios it manages which are contrary to the views expressed herein provided. Generali Insurance Asset Management S.p. A. Società di gestione del risparmio relieves itself from any responsibility concerning mistakes or omissions and shall not be considered responsible in case of possible damages or losses related to the improper use of the information herein provided. It is recommended to look over the regulation, available on our website www.generali-investments.com. Generali Investments is part of the Generali Group which was established in 1831 in Trieste as Assicurazioni Generali Austro Italiane. Generali Investments is a commercial brand of Generali Investments Partners S.p.A. Società di gestione del risparmio, Generali Insurance Asset Management S.p.A. Società di gestione del risparmio, Generali Investments Luxembourg S.A. and Generali Investments Holding S.p.A..