MARKET *News Flash*

JUNE 10, 2020

American Portfolios (AP) Chief Investment Officer Cliff Walsh, CFA®, brings you this AP Market News Flash offering breaking commentary on recent market conditions.

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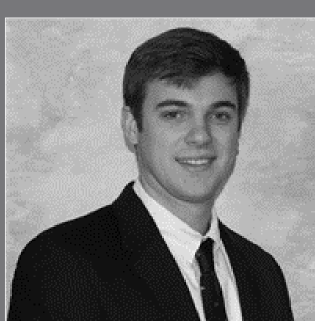

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The U.S. Federal Open Market Committee (FOMC)

left the target range for the federal funds rate at 0-0.25 percent, in line with the futures' market expectations. The Committee noted that the ongoing coronavirus (COVID-19) pandemic represents short- and medium-term risks to the economic outlook. The target range is expected to remain at this level until the Committee is confident that the economy has weathered the storm, meaning full employment and inflation at/or near its 2 percent target. According to the Committee's forecast the emergency rate level will remain in place at least through 2022.

The Committee also updated its economic forecasts, but it is difficult to put much faith in the numbers, given the ongoing uncertainty with the COVID-19 pandemic, as well as the significant dispersion in forecasts among the Committee's members and the Federal Reserve (the Fed) bank presidents. For example, the range for 2021 GDP growth among the aforementioned participants was a 1 percent contraction at the low end to 7 percent growth on the high end. A similar wide range existed for the unemployment rate (4.5 percent to 12 percent) and inflation (1.1 percent to 2 percent). The only agreement was that the targeted federal funds rate, as mentioned above, is expected to remain at 0-0.25 percent through 2022.

It was also announced that the Fed would purchase $80B in Treasuries and $40B in MBS per month, continuing its current pace, or more than $1.4T annually. Not unexpected, gold and long bonds rallied on the news while the U.S. dollar declined. It is almost incredible to believe that it was just two years ago that the Fed raised rates and was forecasting 2020 rates at 3.5 percent and reducing the size of the balance sheet by $50B-plus per month.

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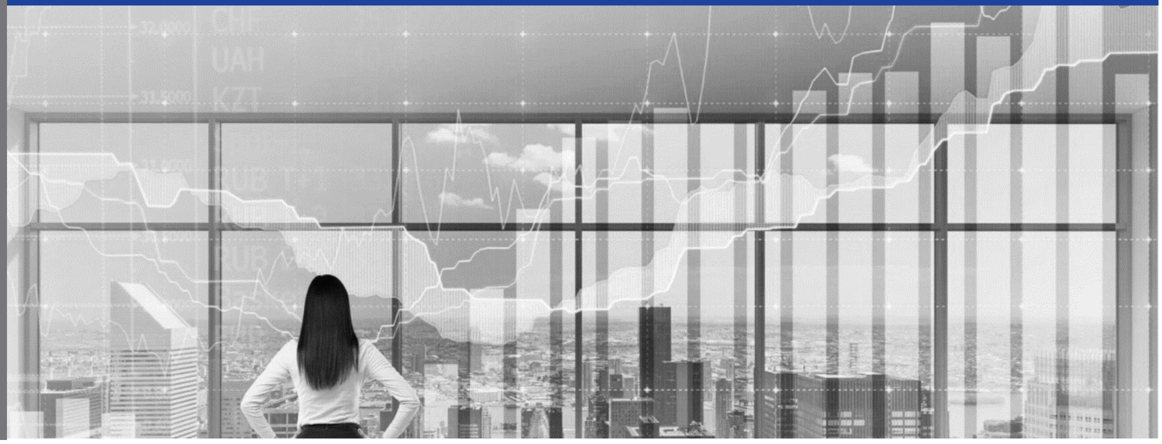

We continue to believe that the Fed’s balance sheet expansion is a major driving force behind the financial market’s strong recent performance (and retail speculation), but has created a significant divergence from economic reality, even when looking ahead into 2021. We think valuations are elevated; and, we have growing concerns about the massive amount of debt monetization and deficit financing currently taking place.

We will provide a broader economic outlook in our Second-Quarter 2020 Market Outlook, which will be issued in July.

Sources

[i] https://www.federalreserve.gov/newsevents/pressreleases/monetary20200610a.htm

[ii] https://www.federalreserve.gov/newsevents/pressreleases/monetary20180613a.htm

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