



HOUSE VIEW

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THE FED: TIME TO “MAKE WAY FOR THE FACTOTUM”

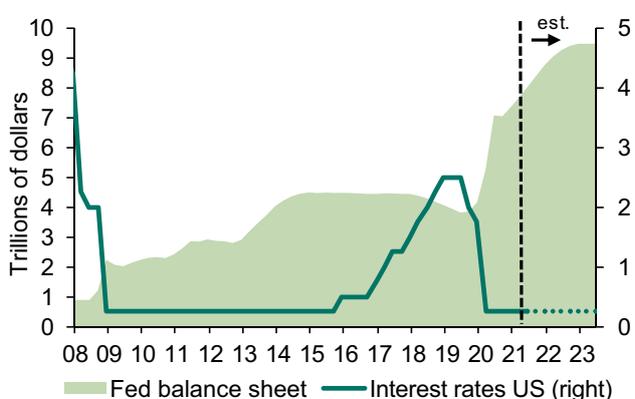
THE FED: TIME TO “MAKE WAY FOR THE FACTOTUM”

In the last few days, several members of the Fed have stepped up to rule out an imminent tightening of monetary conditions in the US. Fed Vice Chair Clarida poured cold waters on expectations of tapering with an unequivocal “I don’t think it’s time to talk about tapering”, extinguishing the pressure that drove inflation up to 4.2% in April.

Clarida’s resolutely relaxed tone came in stark contract with Treasury Secretary Yellen’s recent comments that interest rates would have to “rise somewhat to make sure that our economy doesn’t overheat”, although she backpedalled a few hours later. Could this really have been a slip of the tongue by someone who has spent four years at the helm of the Fed and is fully aware of the impact of her words?

1. FEDERAL RESERVE STIMULUS MEASURES:

Sources: Bloomberg, Oxford Economics and Banca March



With the economic recovery now fully entrenched and equities trading at highs, the Fed is skating on thin ice. The tapering process for the largest stimulus programme on record, with purchases of \$1.4trn a year, is beginning to acquire the comical hue of an opera buffa.

Try as the Fed might to set the scene, we have now reached the “*Make way for the factotum*” aria of this particular opera. Yes, you’ve heard it a thousand times before: in *The Barber of Seville*, the first time we meet Figaro – the factotum – who fixes everything.

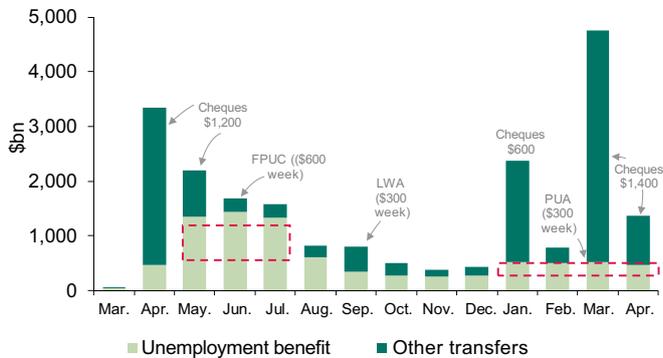
It may not be a love story this time, but it is certainly going to fall to Powell – our barber – to do the fixing. At some point between July and September at the latest, he will make a volte-face and announce the tapering of asset purchase programmes.

The timing is tricky. Just as the baritones playing Figaro have their work cut out to navigate the constant tresillos of an allegro vivace, so the Fed Chair will need to be pitch perfect, planning and anticipating to avoid taking the markets by surprise. Powell will need to make it crystal clear that the tapering will be gradual and is unlikely to begin until early next year, as well as emphasising that the first rate hike will be delayed until the end of 2022 at the earliest.

But he needs to act now if he wants to keep the markets’ trust and show that even as inflation rises, the situation is under control. Patience could well run out, given that other central banks – Canada, Norway and England – have already started to shift their narrative, pressure on inflation, whilst not structural, will not relent anytime soon, and the disappointment in the pace of the labour market recovery in April and May is likely to be short-lived. Emergency subsidies, which appear to have disincentivised work recently, will come to an early end in 21 states over the next month, rather than on 4 September, following decisions by various governments. At the same time, the great reopening is advancing at a healthy clip, with vaccination rates at 50%.

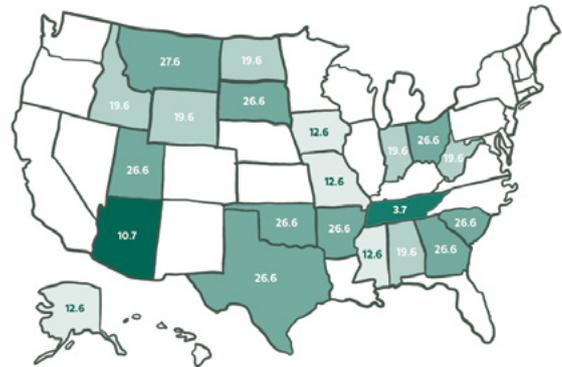
2. USA: SUPPORT FOR FAMILIES AND UNEMPLOYMENT (*)

Sources: Bloomberg and Banca March



3. WHERE PUA BENEFITS ARE ENDING EARLY

Sources: Bloomberg and Banca March



(*) FPUC: an extra \$600 weekly payment to unemployed people which ended at the end of July. LWA: programme intended as a continuation of the FPUC (\$300-400/week) which lasted just 5 weeks due to a lack of funds. PUA: Pandemic Unemployment Assistance.

As we await the publication of inflation figures for May on Thursday, the pressure on prices is not letting up. The latest example was the announcement last Friday that wages and salaries were up 2% year on year in May versus 0.4% in April, confirming that companies are struggling to recruit.

In the Barber of Seville, Figaro plots and schemes to convince Bartolo to let Count Almaviva marry his beloved Rosina. Do not be taken in by sweet nothings. The Fed will change its discourse any moment now and it will pay to be prepared, buying cyclical bets like the financial sector, which is among the best positioned to benefit.

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