Written by Bob Adelmann on June 11, 2020

Fed's Gloomy Outlook Sinks Stocks

Federal Reserve Chairman Jerome Powell's assessment that the surprisingly favorable jobs report last week was likely a one-off blip is pushing stock prices lower on Wall Street on Thursday.

Following the meeting of the Federal Open Market Committee (FOMC) on Wednesday, Powell said that last week's report "was a welcome surprise. We hope we get many more like it, but I think we have to be honest, that it's a long road."

This sent futures down more than two percent before the opening.

In its official statement issued by the FOMC, the Fed admitted that "financial conditions have improved … [but] the ongoing public health crisis will weigh heavily on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term."

Translation: The Fed will keep interest rates at close to zero as far out as the eye can see, perhaps through the end of 2022, two years from now.

It will also continue to flood the economy with newly created money: "The Federal Reserve will increase its holdings of Treasury securities and agency residential and commercial mortgage-backed securities at least at the current pace."

The Fed has already expanded its balance sheet by $2 trillion since the start of the virus emergency in March, and is buying up Treasuries and mortgages at $120 billion a month. Doing the math, the Fed's balance sheet, which was $4 trillion in January and has already topped $7 trillion, will, according to former New York Fed President William Dudley, likely exceed $10 trillion by the end of 2022.

And the national debt, which was "just" $22 trillion in January, has jumped to more than $26 trillion, with a $30 trillion national debt likely in a few short years.

None of this is of any concern to the Fed's powers-that-be: "We are strongly committed to using our tools," said the chairman, "to do whatever we can for as long as it takes to provide some relief and stability."

The Fed estimated that the economy will contract by 6.5 percent for all of 2020, but bounce back by five percent next year and 3.5 percent in 2022. It also estimated that the unemployment rate will drop from the 13.3-percent rate reported last week to under 10 percent by the end of the year. And by the end of 2022, the Fed thinks unemployment will have fallen further, to 5.5 percent.

There is one bright spot: The Fed forecasts that inflation will remain quiescent for the next three years. As the chairman expressed it, "We're not thinking about raising rates. We're not even thinking about thinking about raising rates. What we're thinking about is providing support for the economy [and] we think that is going to take some time."

This should, if he is to be believed, reduce anxiety expressed by some that the Fed could suddenly raise interest rates right before the election, based upon inflation of the currency showing up in rapid price increases in the coming months.

This would bode well for the president's reelection chances based upon the proven adage that voters will vote their pocketbooks in November.

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