

James Bianco

**What Does The Fed Do Now?**  
December 16, 2021

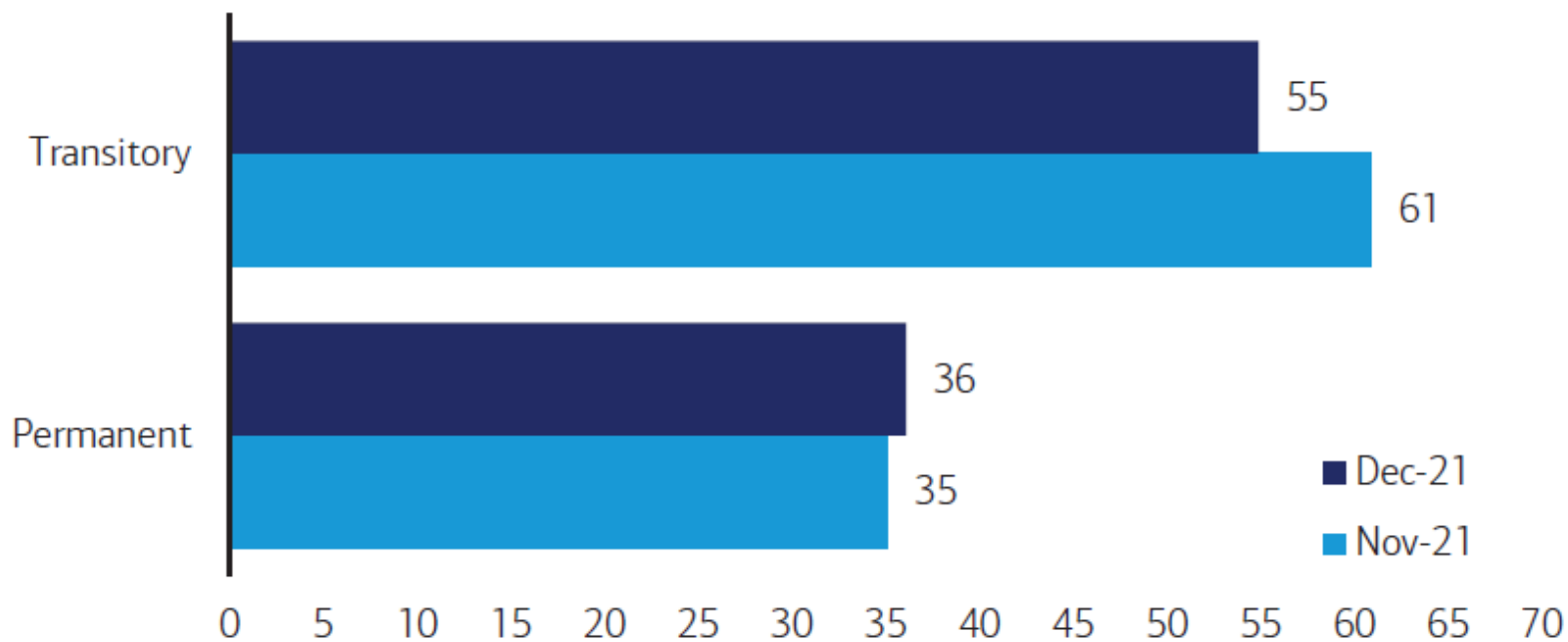


• **CBS News – Transcript: Mohamed El-Erian on “Face the Nation,” December 12, 2021**

EL-ERIAN: Yeah, I’ve been saying this for months. **The-the characterization of inflation is transitory, is probably the worst inflation call in the history of the Federal Reserve. And it results in a high probability of a policy mistake.** So, the Fed must quickly, starting this week regain control of the inflation narrative and regain its own credibility. Otherwise, it will become a driver of higher inflation expectations that feed onto themselves.

### Chart 6: 36% of investors think inflation is permanent

Do you think inflation is transitory or permanent?

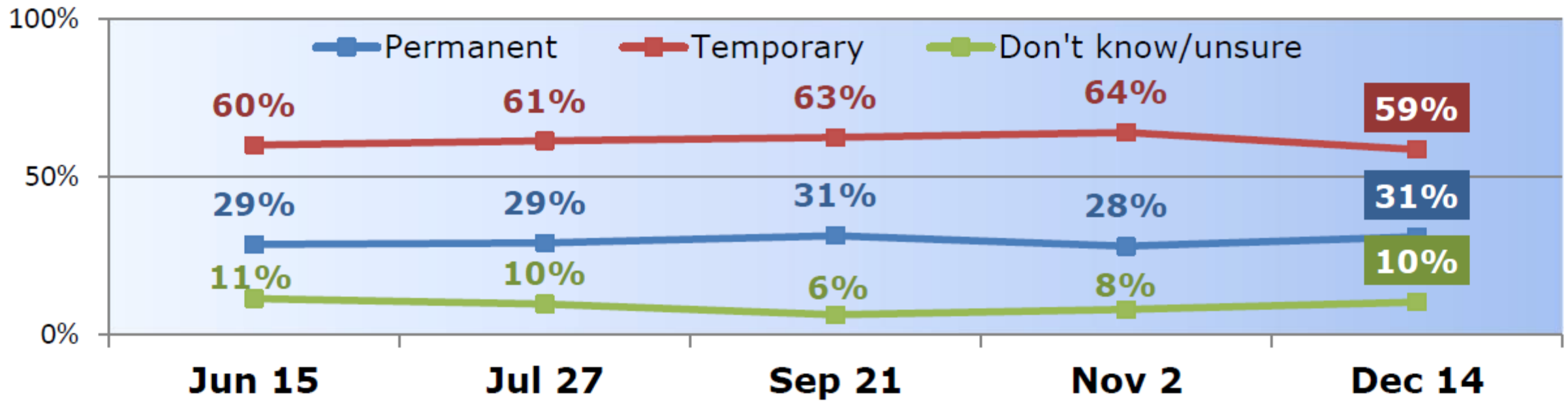


...and only 36% think inflation is permanent while 55% think it is transitory.

Source: BofA Global Fund Manager Survey

BofA GLOBAL RESEARCH

## 17. The recent increase in inflation is most likely:

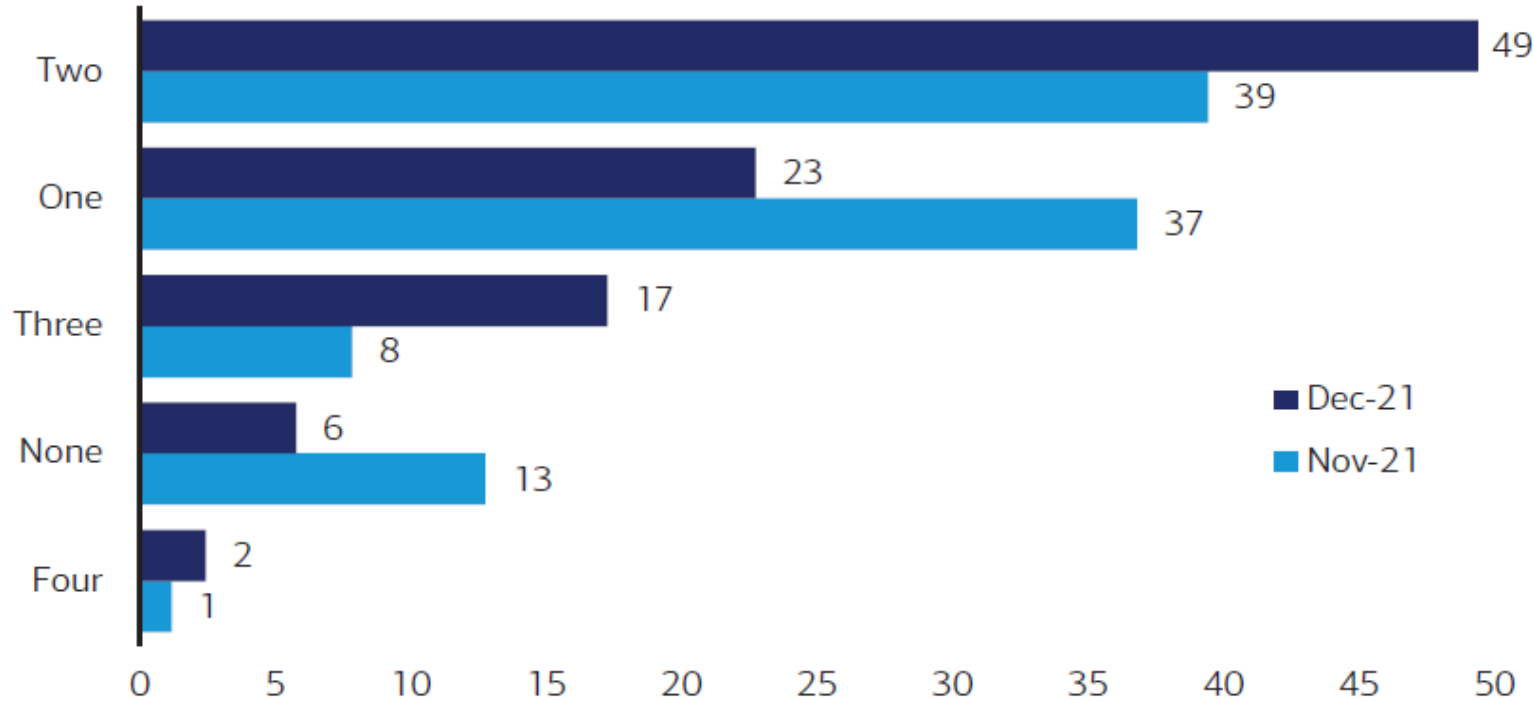


**POWELL:** So on the - the first part of your question, which is why not stop purchasing now, I would just say this - we - we have learned that we're - in dealing with balance sheet issues, we've learned that it's best to take a careful, sort of methodical approach to making adjustments.

Markets can be sensitive to it and we thought that this was -this was a doubling of the speed will - we're basically two meetings away now from - from finishing the taper. And we thought that was the appropriate way to go, so we announced it and that's - that's what will happen.

### Chart 7: Investors expect 2 rate hikes in 2022

How many times do you think the Fed will raise rates in 2022



Source: BofA Global Fund Manager Survey

BofA GLOBAL RESEARCH

FMS investors are now on average expecting 2 Fed hikes in 2022. 49% of investors expect 2 hikes, while 23% expect 1, and 17% expect three.

9 out of 10 investors think the Fed will tighten by 1H23 with the average expectation now for Jul'22 (up from Oct'22)...

# FED FUNDS TARGET RATE FORECAST



## When Does The Market Expect The Fed To Hike?

As of December 16, 2021

Probability of a Move

Green Hike Probability over 50%

FOMC Meeting	No Hike 0% -0.25%	One Hike to 0.25% - 0.50%	Two Hikes to 0.50%- 0.75%	Three Hikes to 0.75% -1.00%	Four Hikes to 1.00% -1.25%
26-Jan-22	93%	7%	0%	0%	0%
16-Mar-22	57%	43%	3%	0%	0%
4-May-22	37%	63%	17%	1%	0%
15-Jun-22	16%	84%	43%	10%	1%
27-Jul-22	11%	89%	56%	20%	4%
21-Sep-22	7%	94%	70%	35%	11%
2-Nov-22	5%	95%	76%	44%	17%
14-Dec-22	2%	98%	88%	64%	34%
1-Feb-23	1%	99%	90%	69%	41%

Source: The Chicago Mercantile Exchange

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<https://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html>

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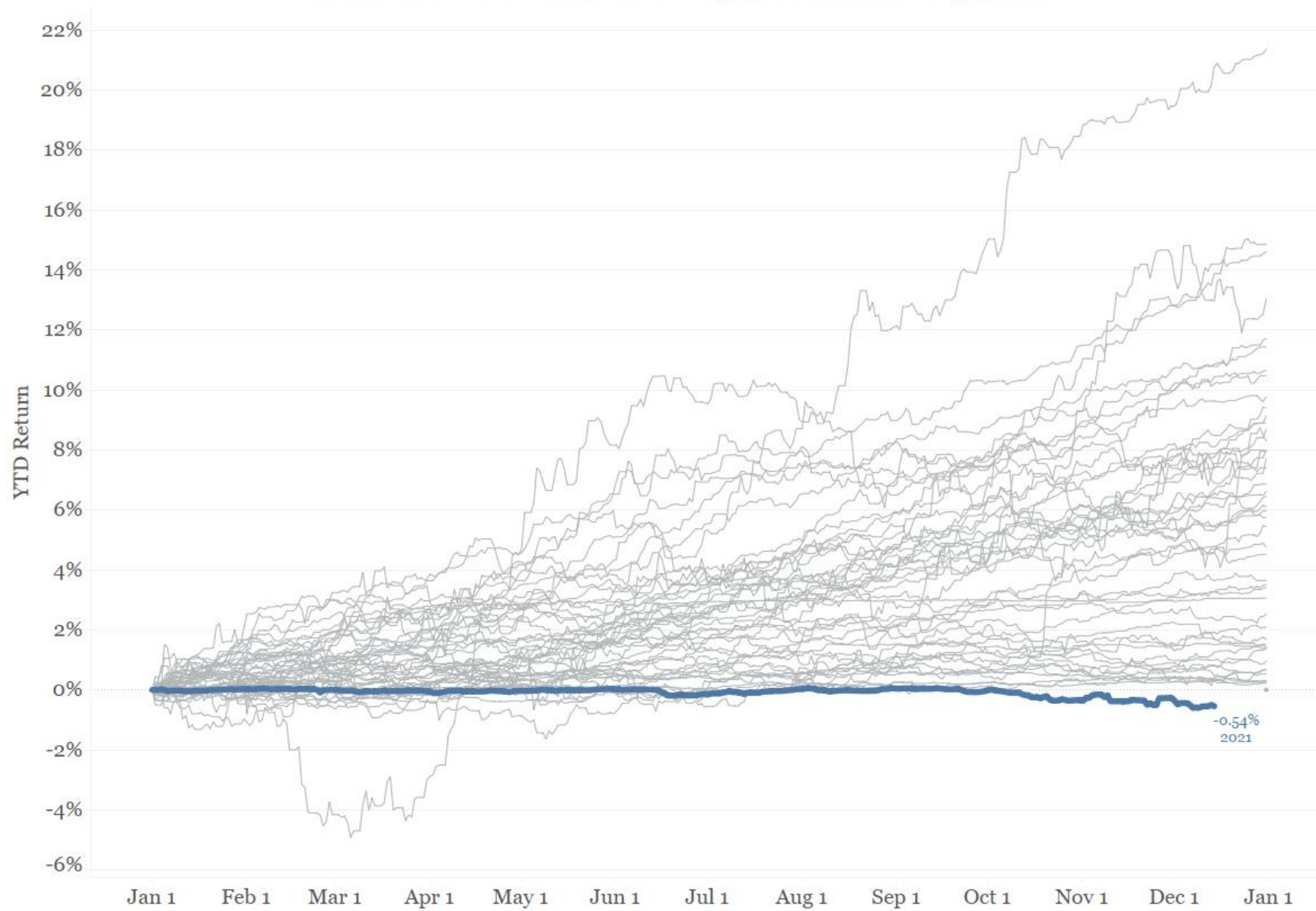
## US 2-Year Yield



Source: Bloomberg

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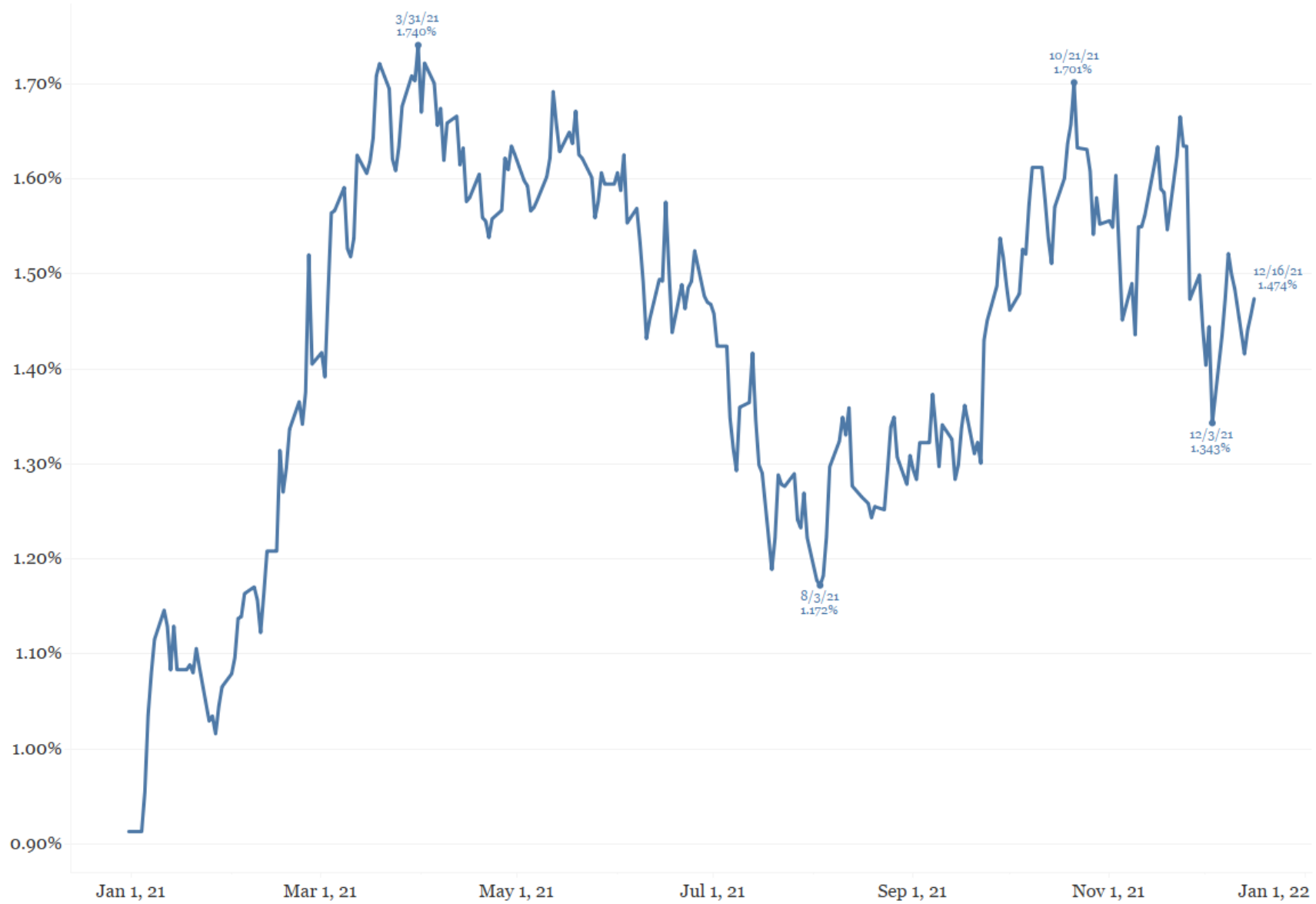
# Year-to-Date Total Returns for the Ryan 2-Year Treasury Index



Source: Bloomberg

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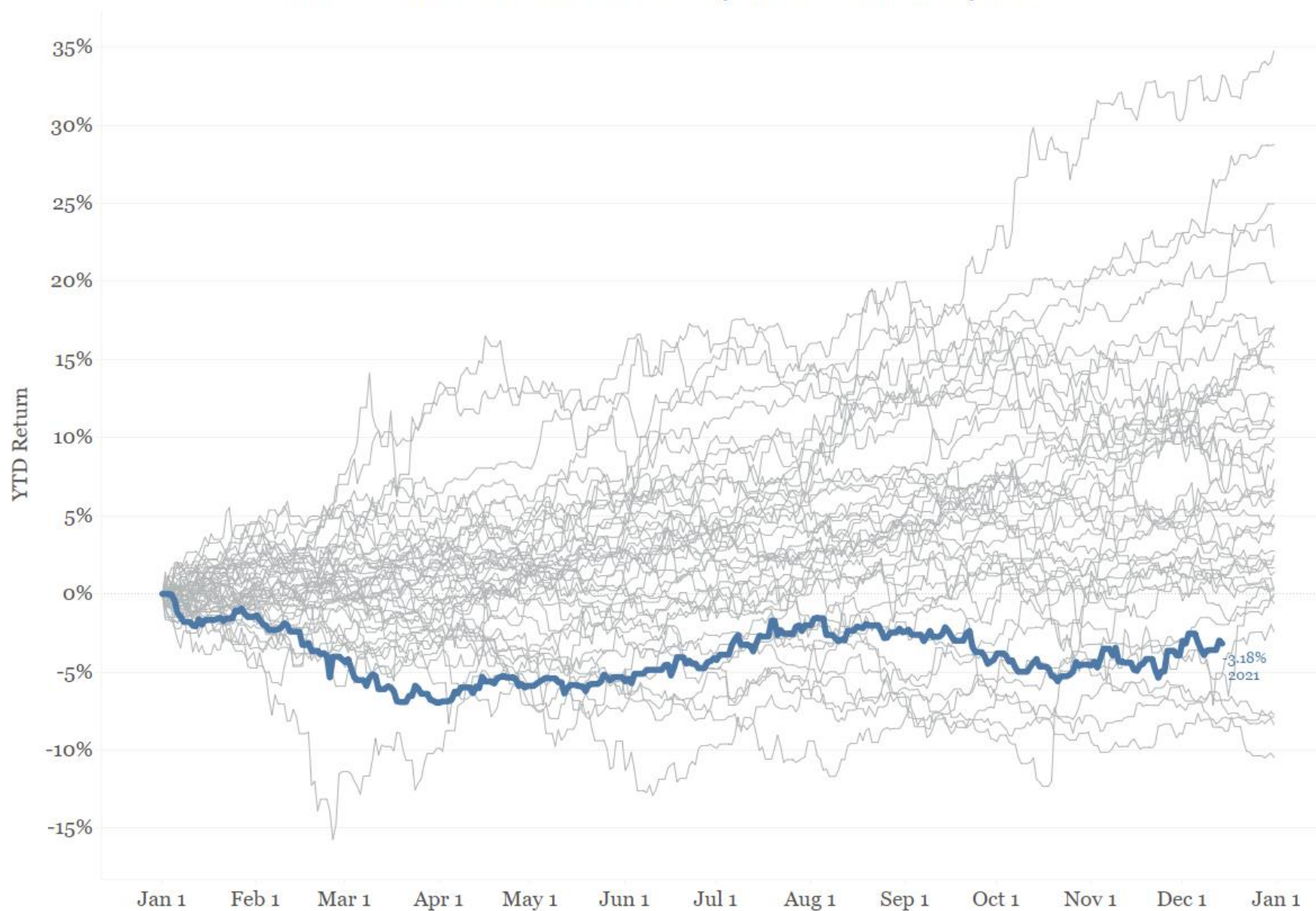
# US 10-Year Yield



Source: Bloomberg

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# Year-to-Date Total Returns for the Ryan 10-Year Treasury Index



Source: Bloomberg

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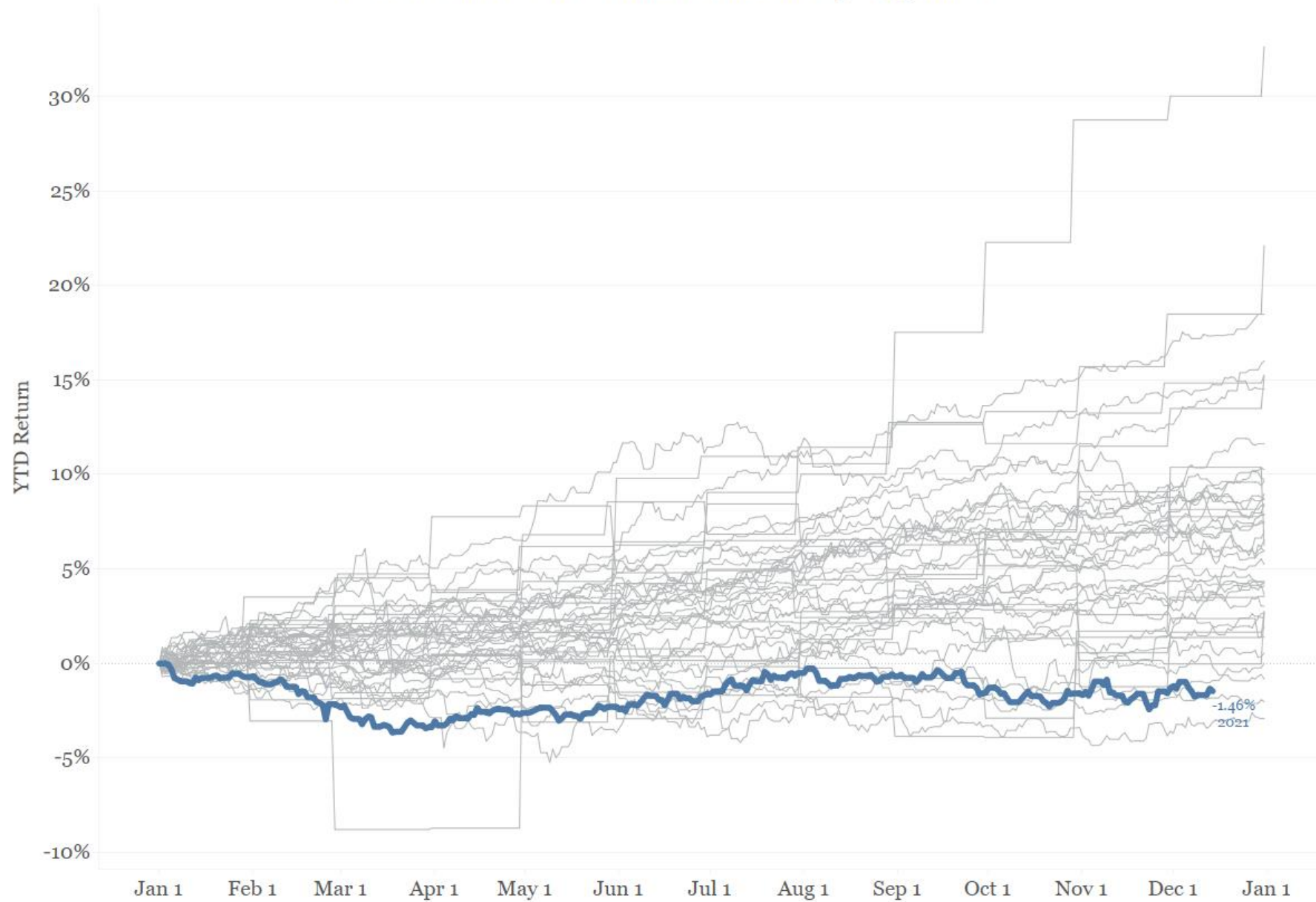
## The 10-Year less 2-Year Yield Curve



Source: Bloomberg

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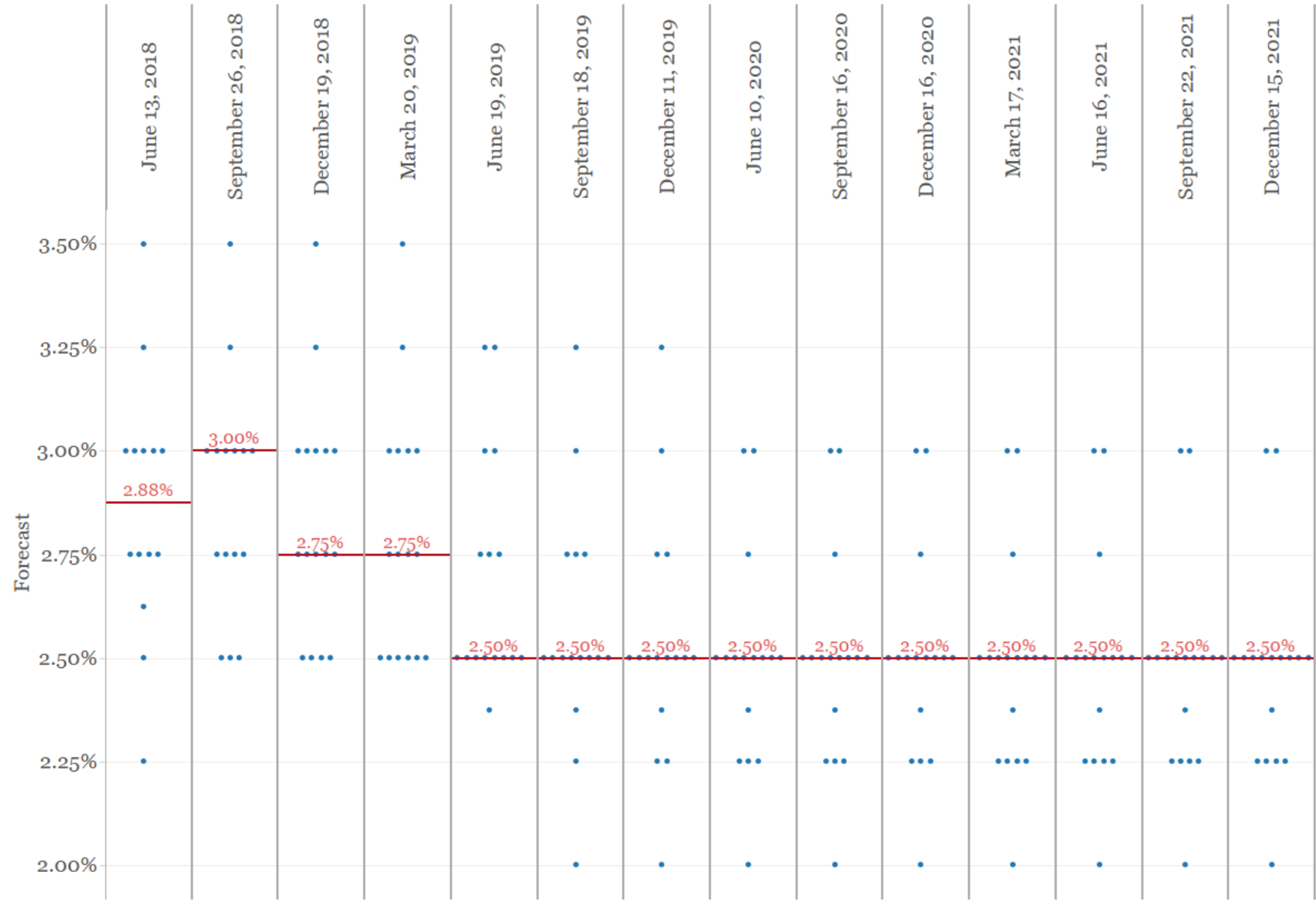
# Year-to-Date Total Returns for the Barclays Agg Index



Source: Bloomberg

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# Fed Projection For Long-Term

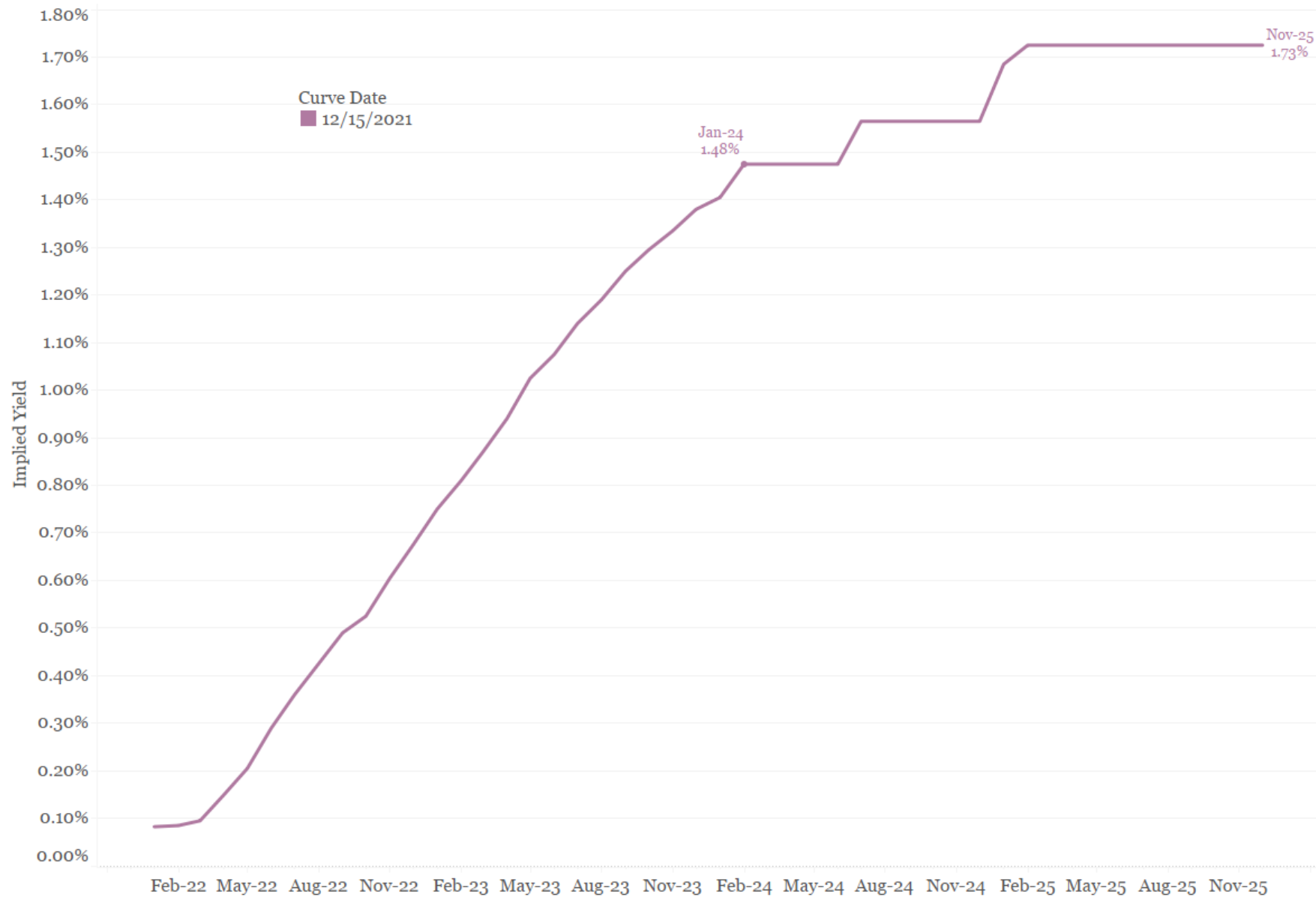


Source: The Federal Reserve

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## What is The Terminal Fed Funds Rate?

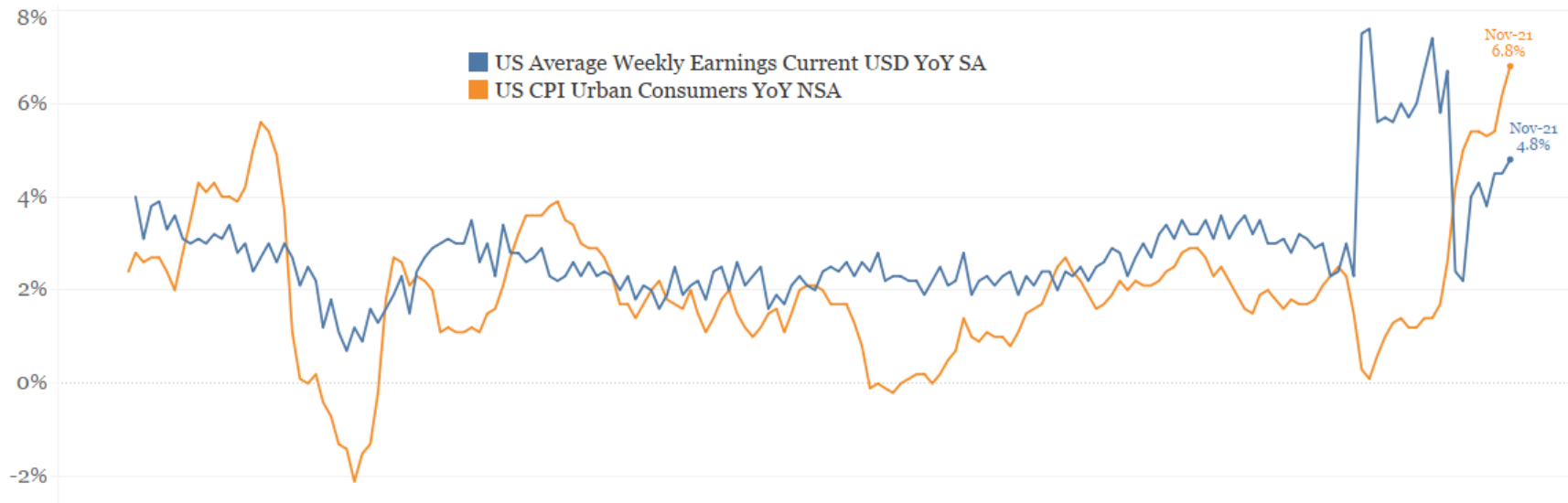


Source: Chicago Mercantile Exchange, Bloomberg

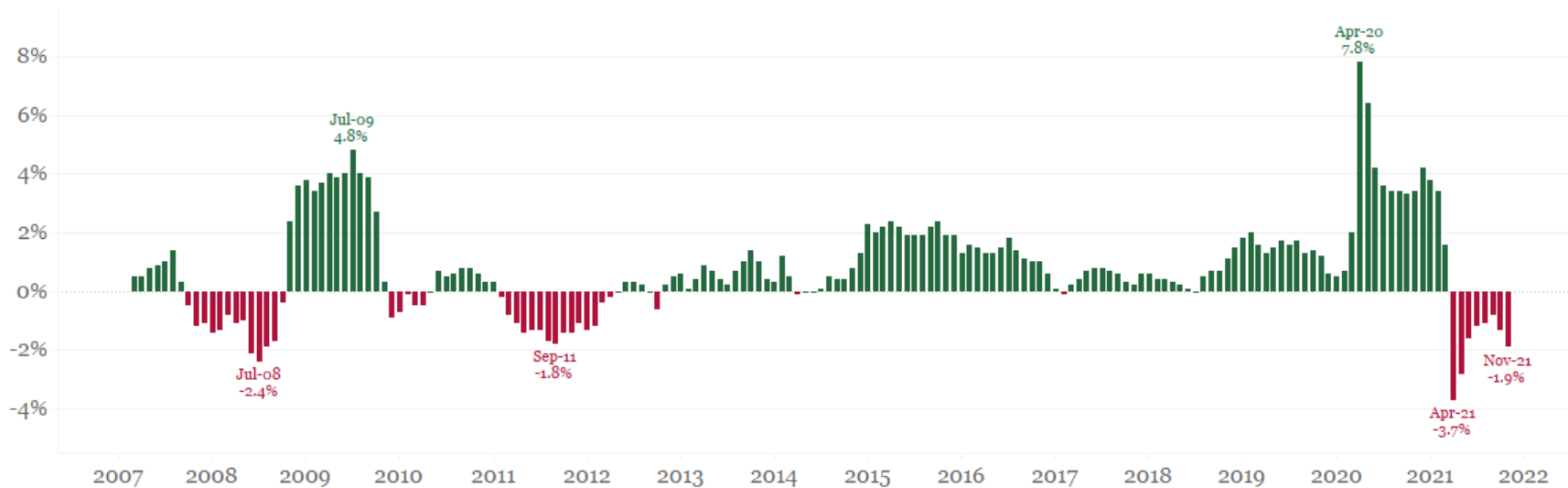
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## Inflation and Wages



## US Real Average Hourly Earnings YoY SA Inflation minus Wages



Source: The Bureau of Labor Statistics, Bloomberg

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•**CNBC – Public view on Biden’s handling of Covid and the economy takes another hit, CNBC survey shows**

\* President Joe Biden’s overall approval rating stabilized at a low level of 41%, according to the CNBC All-America Survey.

\* Biden’s approval rating on handling the economy and dealing with the coronavirus both declined.

\* At 46% approval to 48% disapproval, Biden’s approval rating on the coronavirus is now underwater for the first time.

\* His economic approval sank more deeply underwater, with 37% approving compared to 56% who disapprove

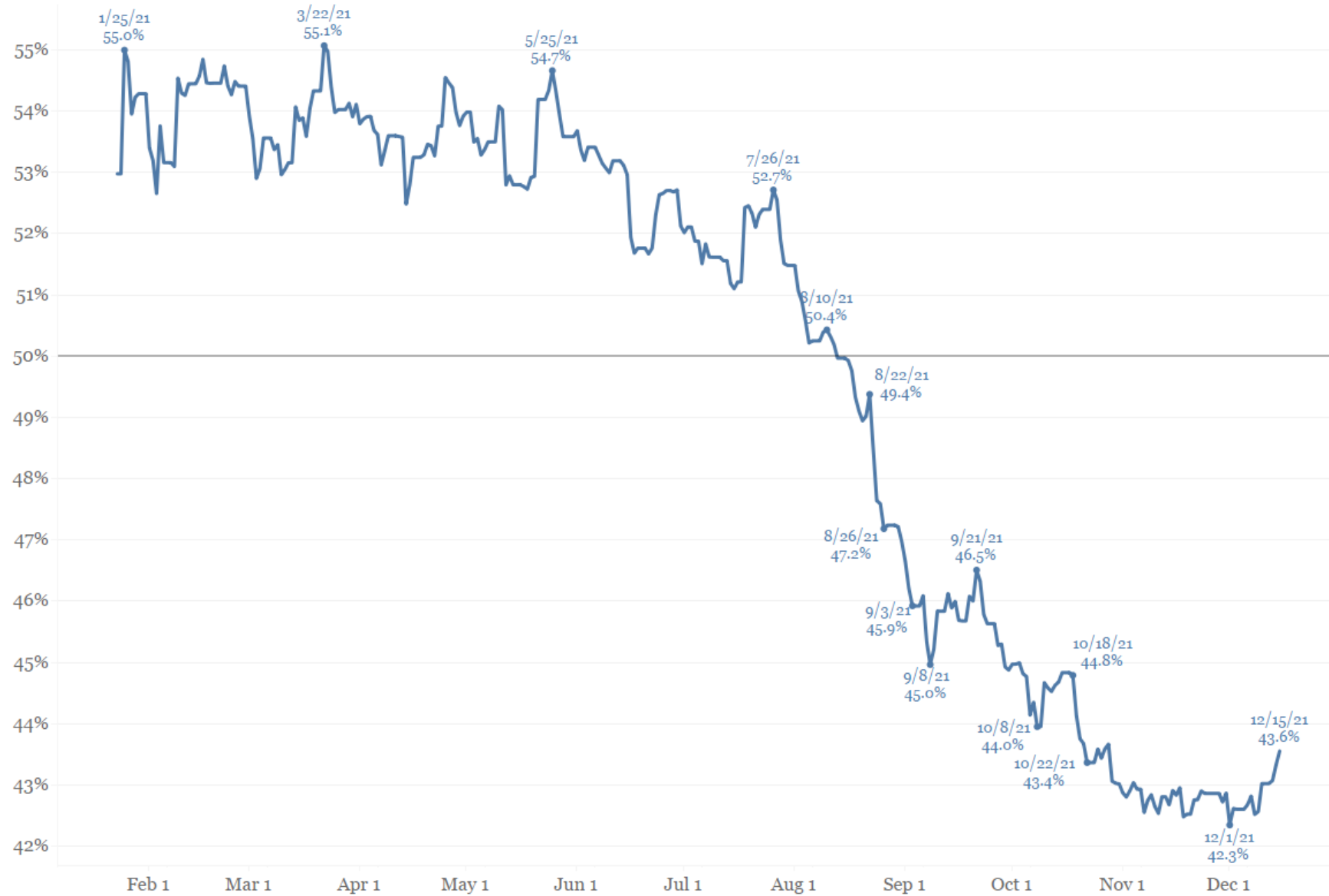
Inflation has now firmly eclipsed the coronavirus as the No. 1 concern for the country, with those two issues followed by immigration, crime and climate change.

•**Barron’s – Two-Thirds of Americans Polled Disapprove of How Biden Has Handled Inflation**

President Joe Biden’s job approval ratings fell to new lows on several issues, including crime, gun violence and the economic recovery, with 69% disapproving of how he is handling inflation, according to an ABC/Ipsos poll released Sunday.

## Biden's Approval Rating

FiveThirtyEight's Average of Approval Using All polls

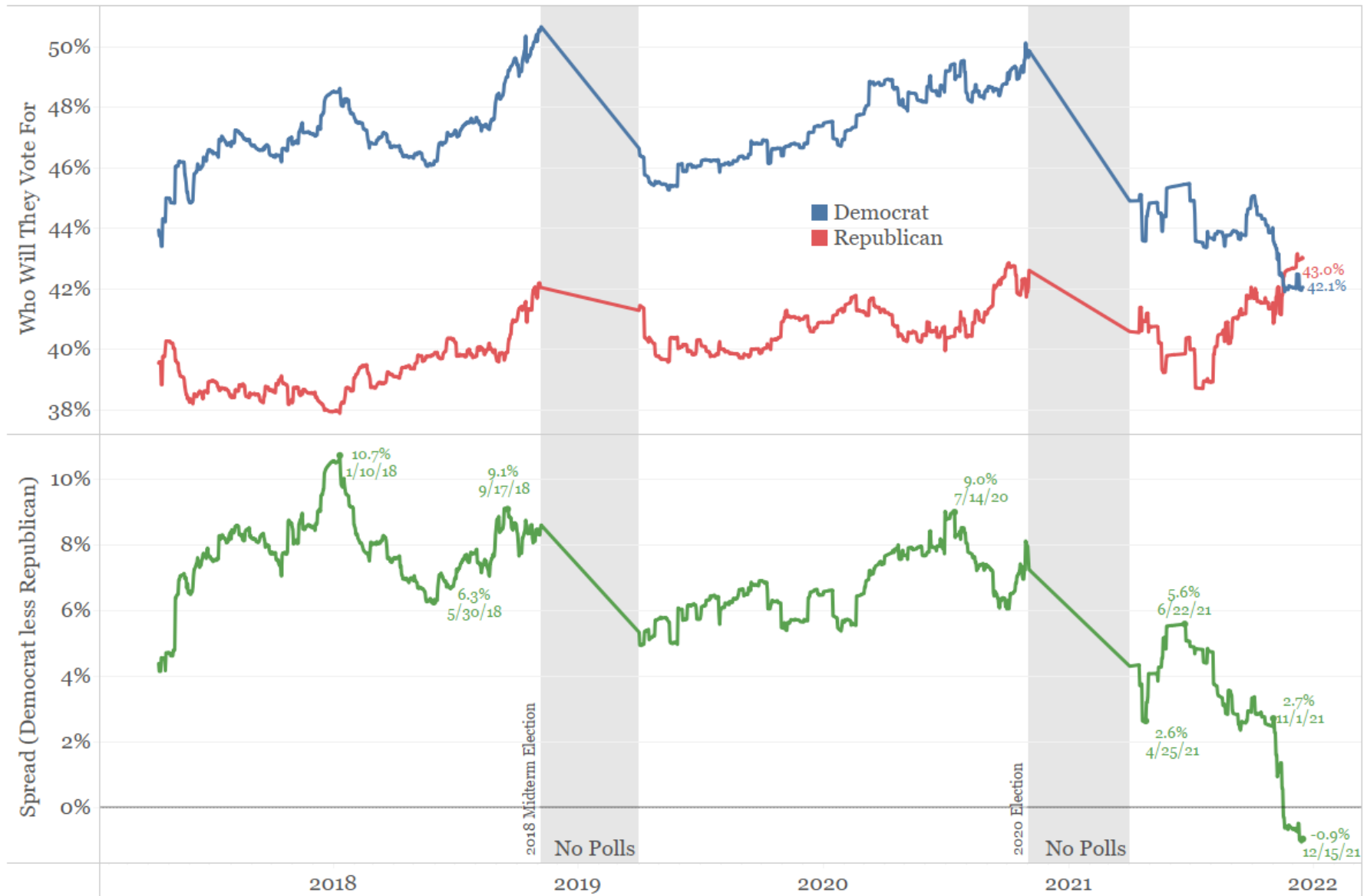


Source: FiveThirtyEight Blog  
<https://projects.fivethirtyeight.com/biden-approval-rating/>

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# Which Party Will You Vote For?

Generic Ballot - All Polls Aggregated



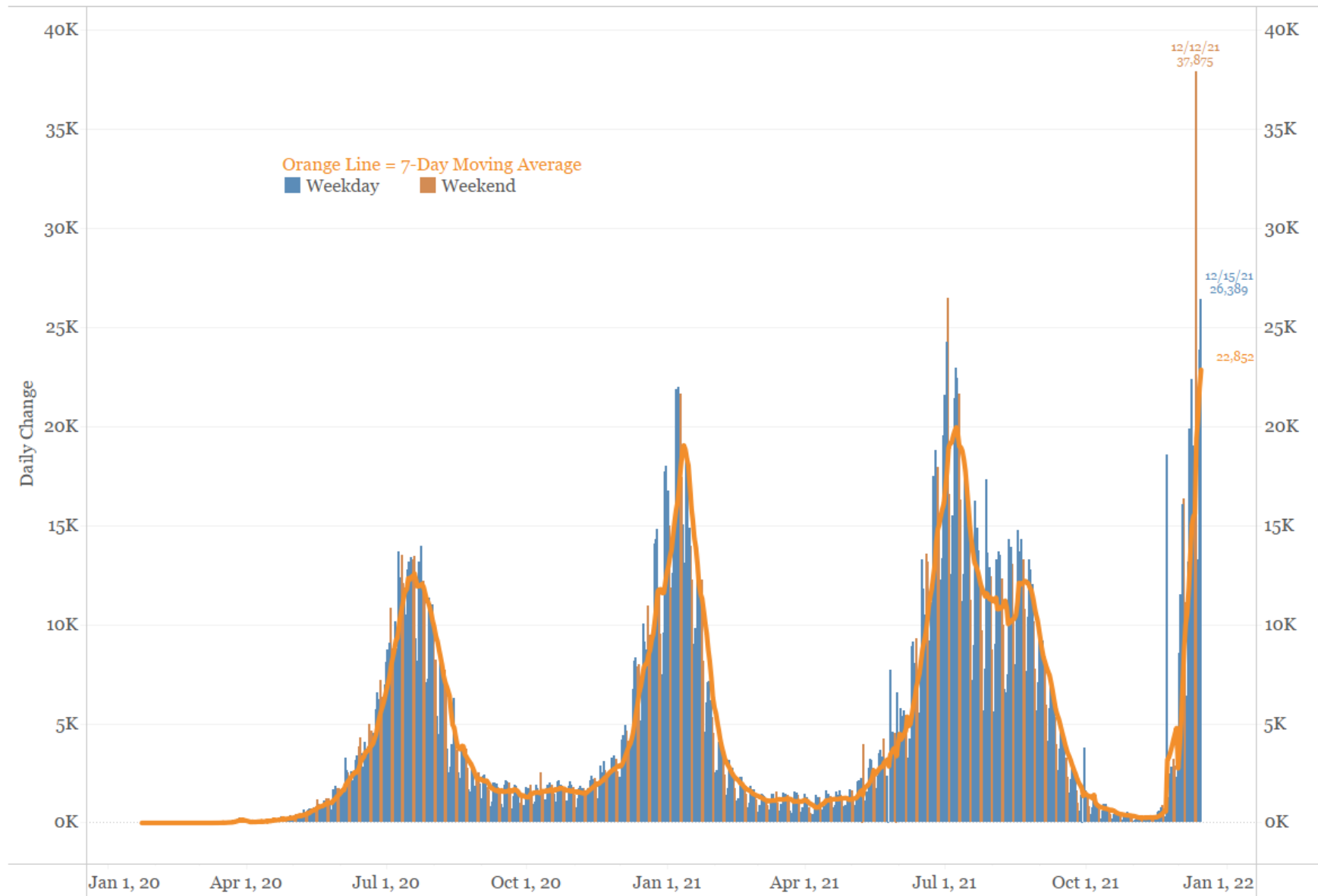
Source: FiveThirtyEight Blog

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• ***Axios - Felix Salmon: Biden could be 1st president since Carter who wants to make the Fed more hawkish***

Joe Biden could be the first president since Jimmy Carter who wants to make the Federal Reserve more hawkish. ... "The Fed chair has practically unilateral power over monetary policy, and at this point monetary policy is really the only thing our government can do to affect inflation," says economist Noah Smith.

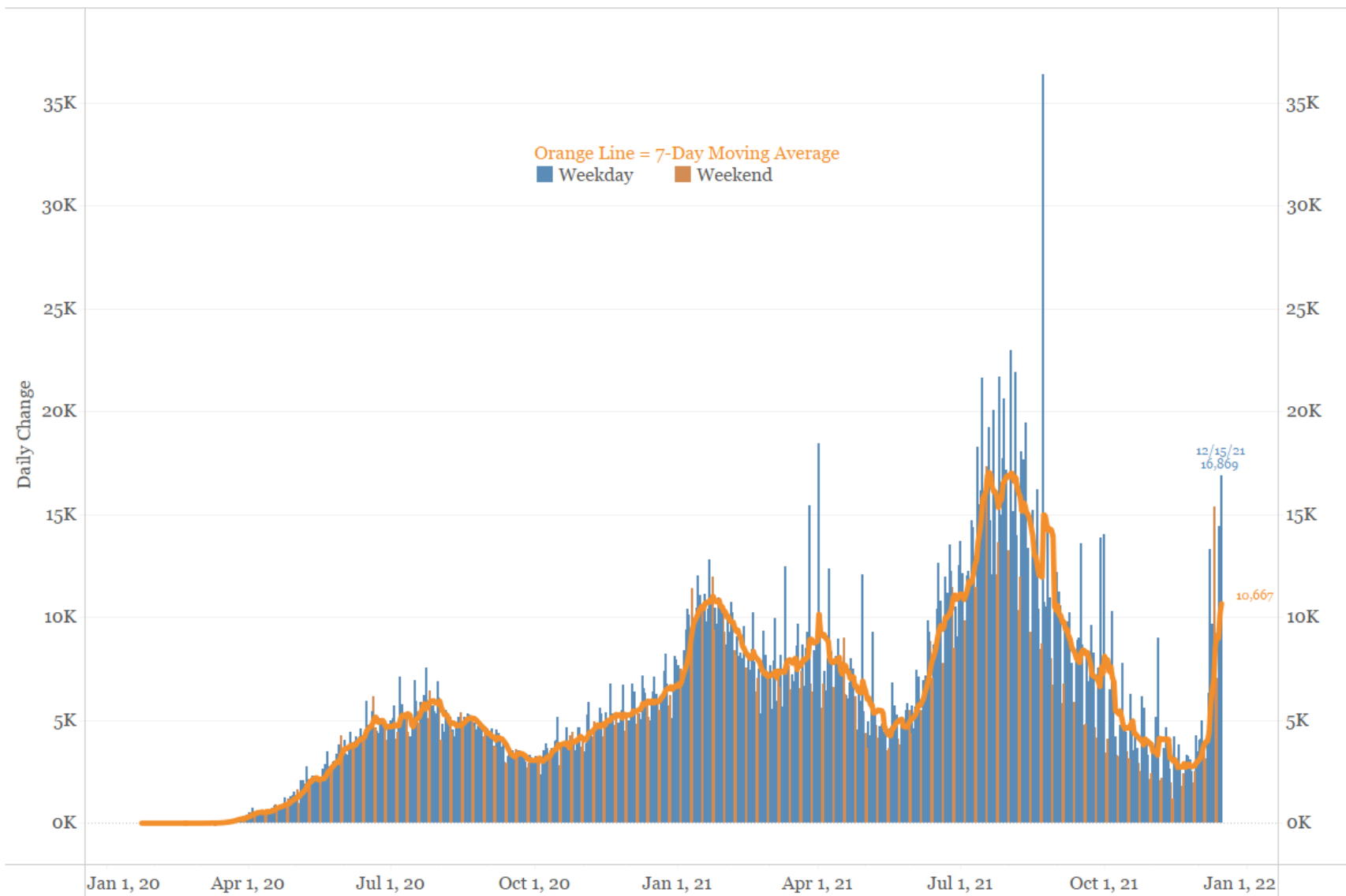
### South Africa REPORTED Infections



Source: Johns Hopkins University  
<https://gisanddata.maps.arcgis.com/apps/opsdashboard/index.html#/bda7594740fd40299423467b48e9ecf6>

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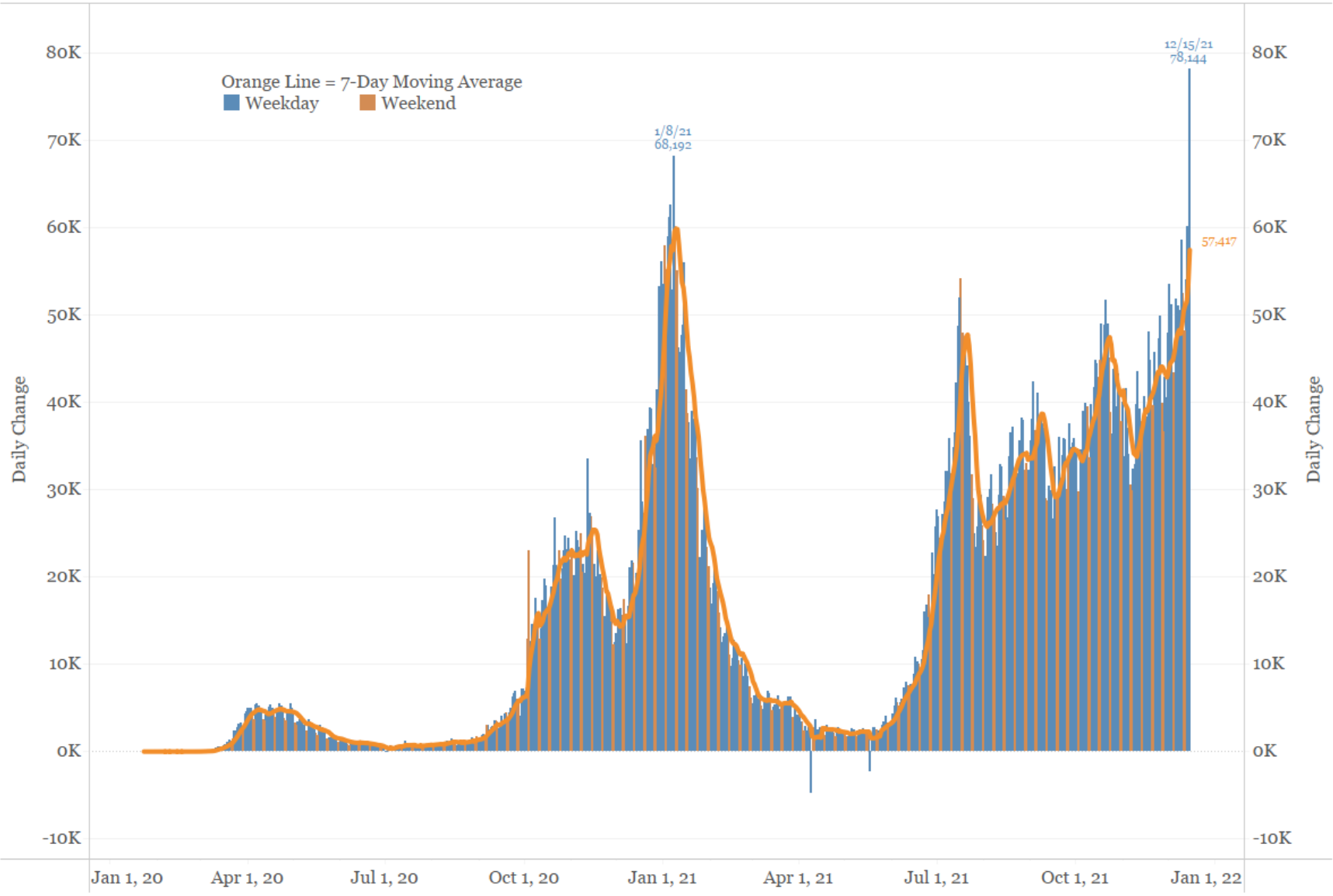
# Africa *less* South Africa REPORTED Infections (48 nations)



Source: Johns Hopkins University  
<https://gisanddata.maps.arcgis.com/apps/opsdashboard/index.html#/bda7594740fd40299423467b48e9ecf6>

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# United Kingdom - REPORTED Infections

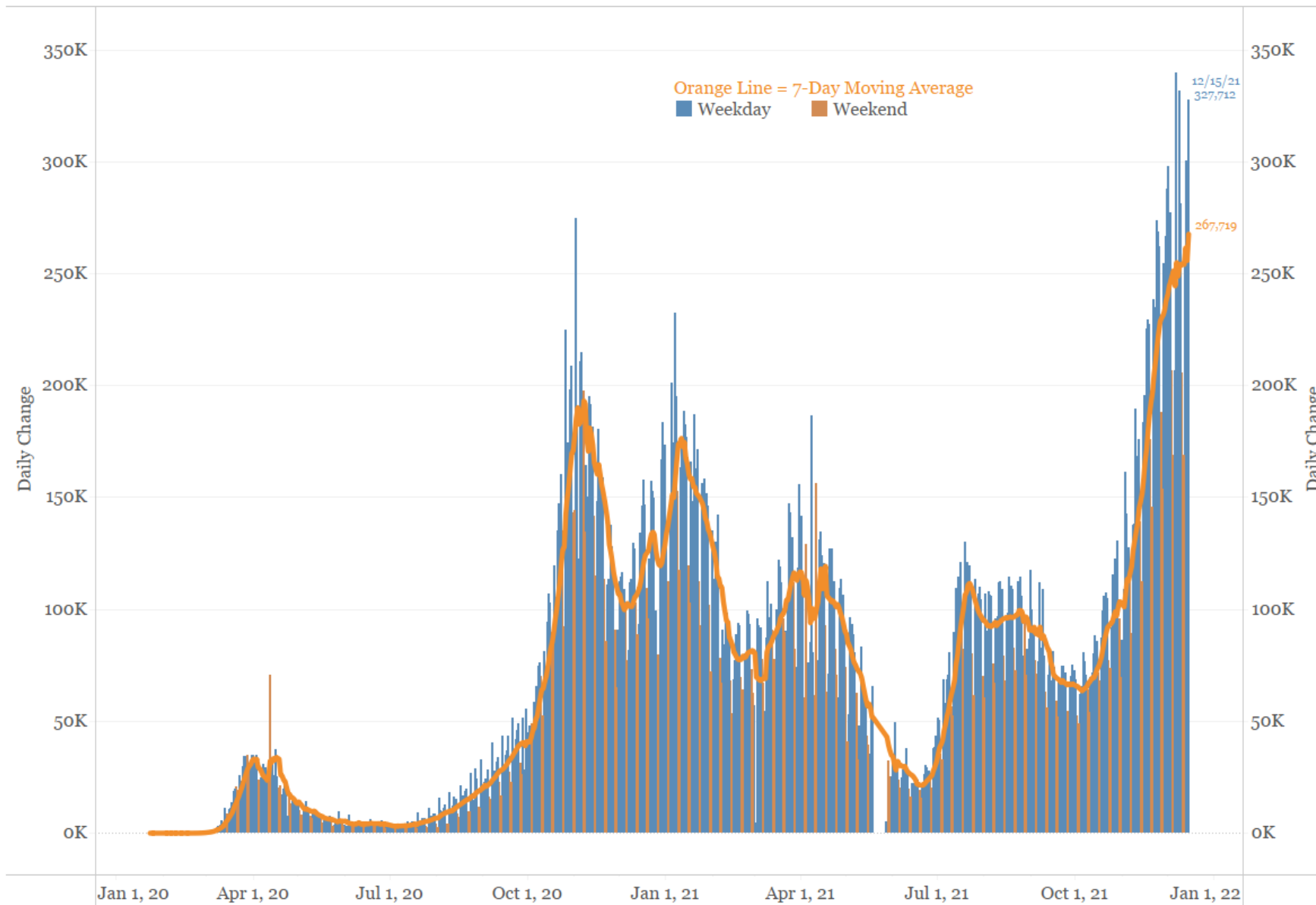


Source: Johns Hopkins University  
<https://gisanddata.maps.arcgis.com/apps/opsdashboard/index.html#/bda7594740fd40299423467b48e9ecf6>

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# Western Europe - REPORTED Infections

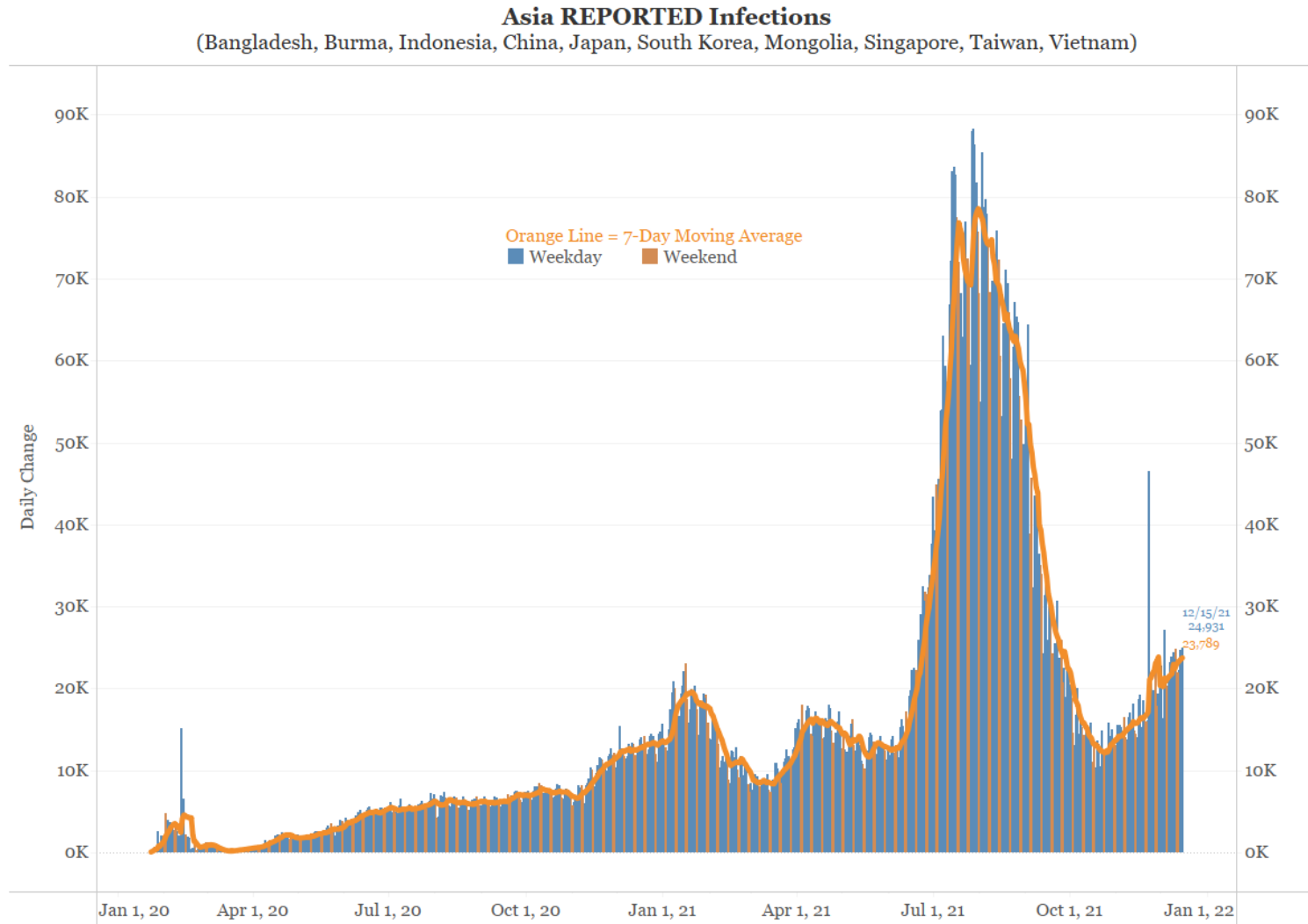


Source: Johns Hopkins University  
<https://gisanddata.maps.arcgis.com/apps/opsdashboard/index.html#/bda7594740fd40299423467b48e9ecf6>

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## Sinovac Provides Inadequate Shield Against Omicron in Hong Kong Study

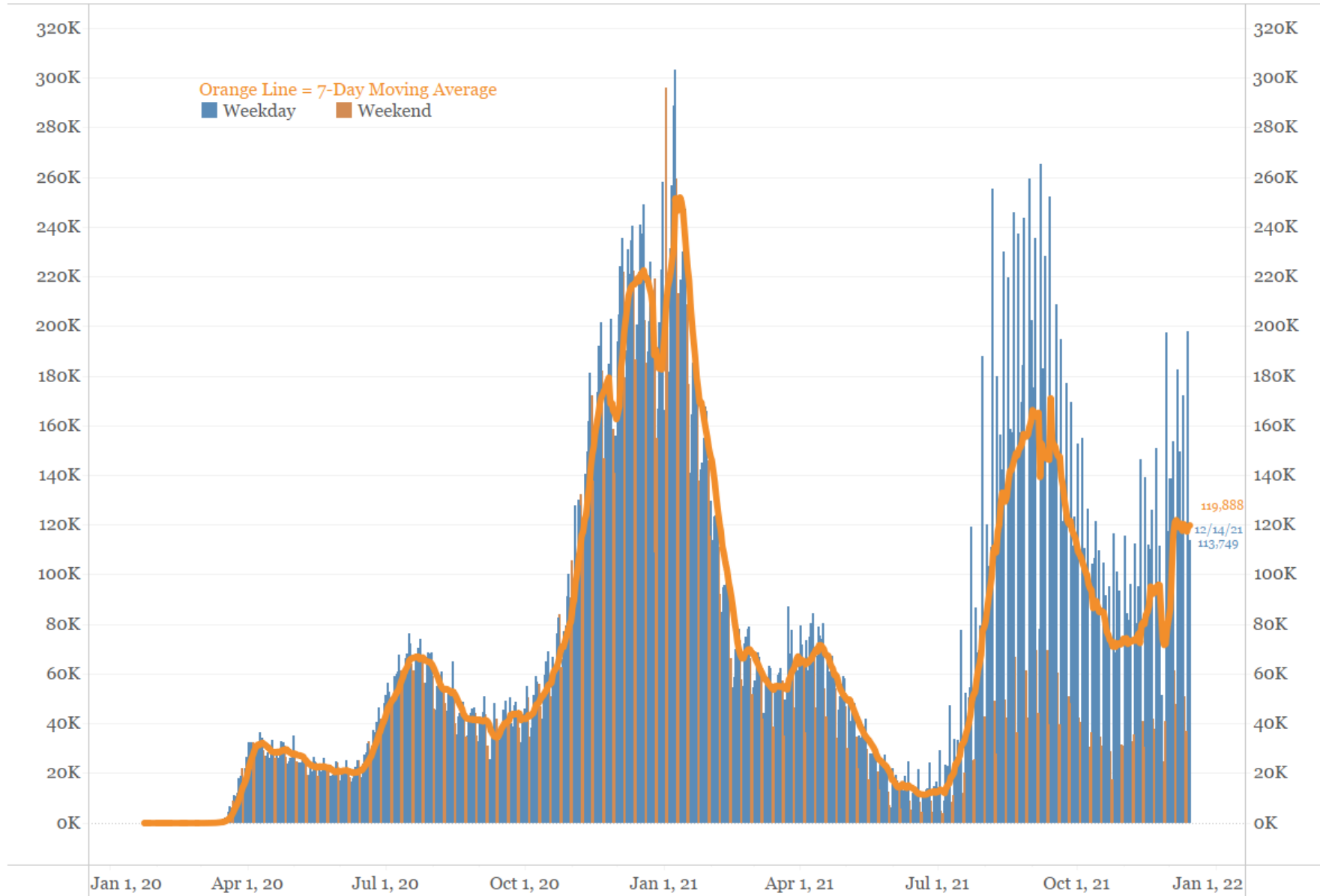
The vaccine made by Sinovac Biotech Ltd., one of the most widely used in the world, doesn't provide sufficient antibodies in two doses to neutralize the omicron variant and boosters will likely be needed to improve protection, initial lab findings showed.



Source: Johns Hopkins University  
<https://gisanddata.maps.arcgis.com/apps/opsdashboard/index.html#/bda7594740fd40299423467b48e9ecf6>

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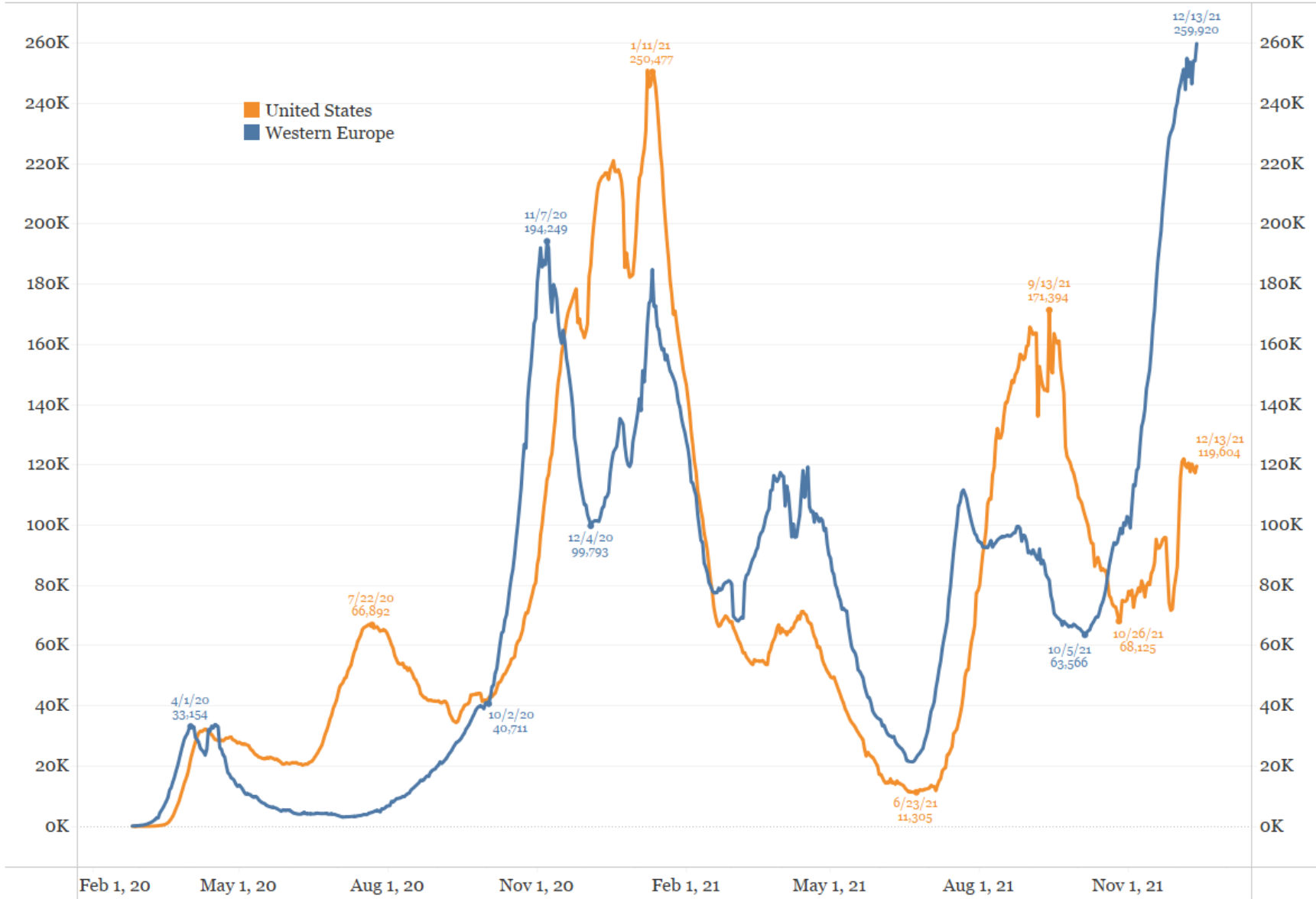
# United States: REPORTED Infections



Source: John Hopkins University  
<https://gisanddata.maps.arcgis.com/apps/opsdashboard/index.html#/bda7594740fd40299423467b48e9ecf6>

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# Seven Day Average of Daily COVID-19 Infections

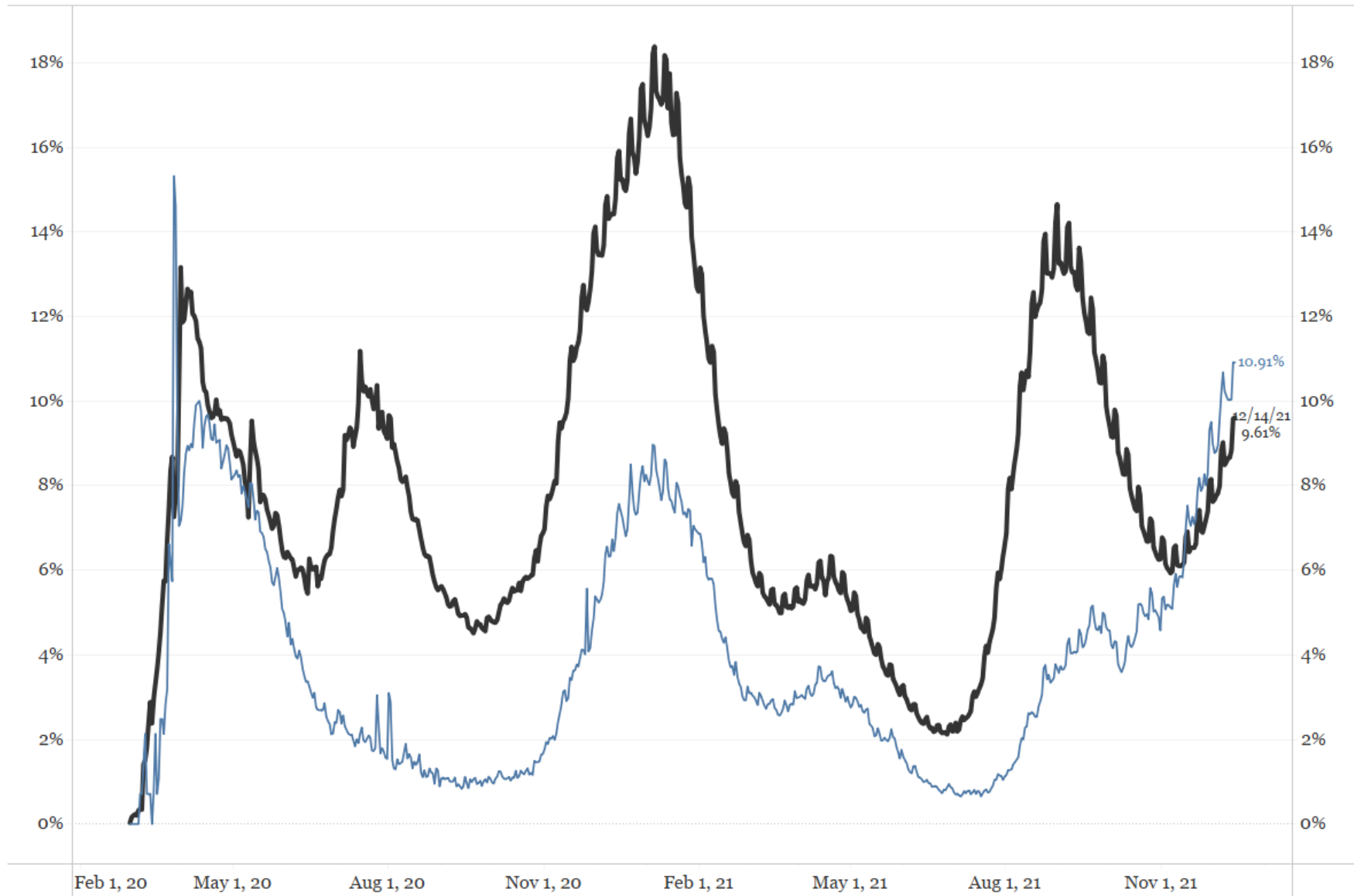


Source: Bloomberg News

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# Estimated Percentage of Inpatient Beds Occupied by COVID-19 Patients

The Northeast - ME, MA, NH, VT

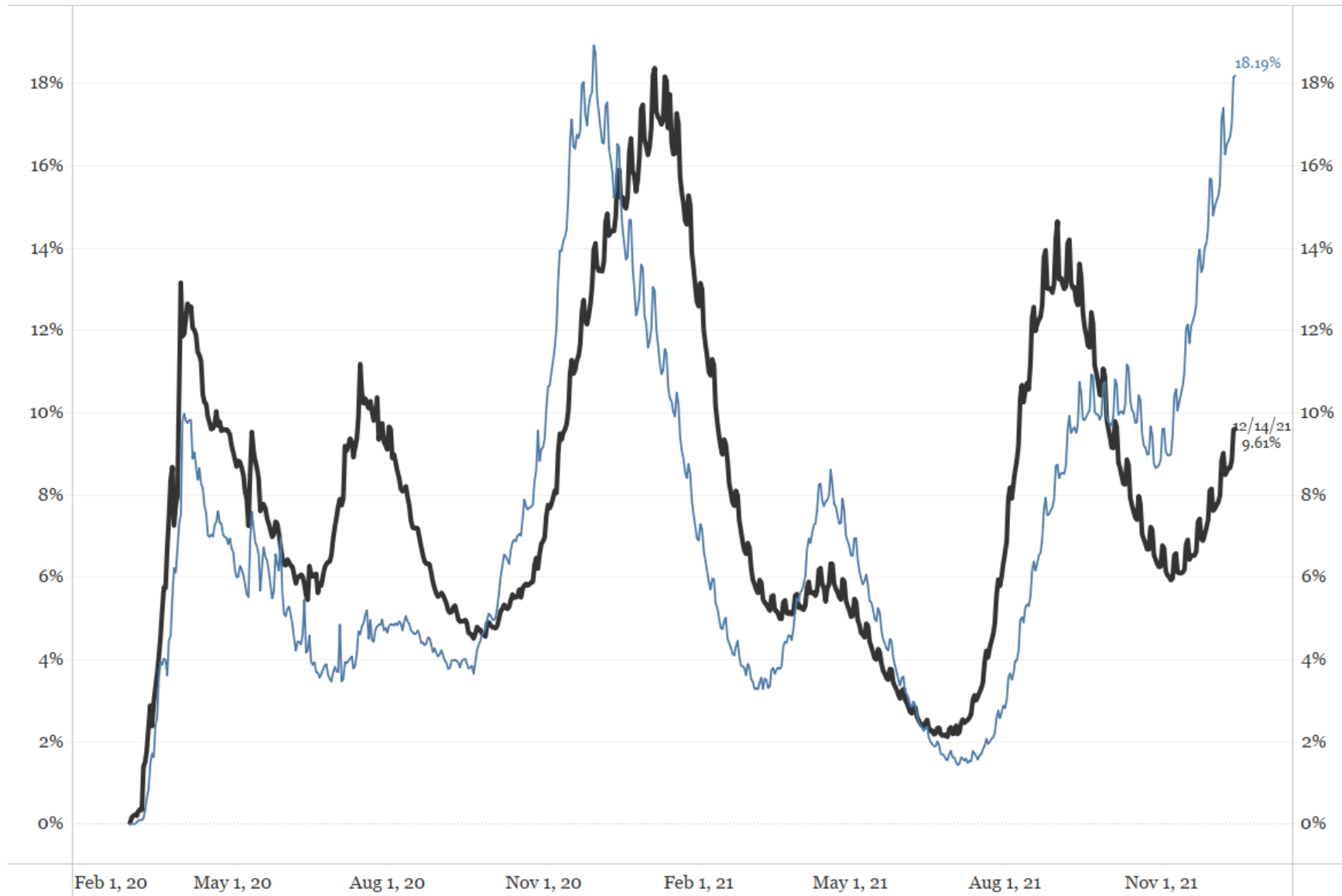


Data Source: US Department of Health & Human Services, Bloomberg

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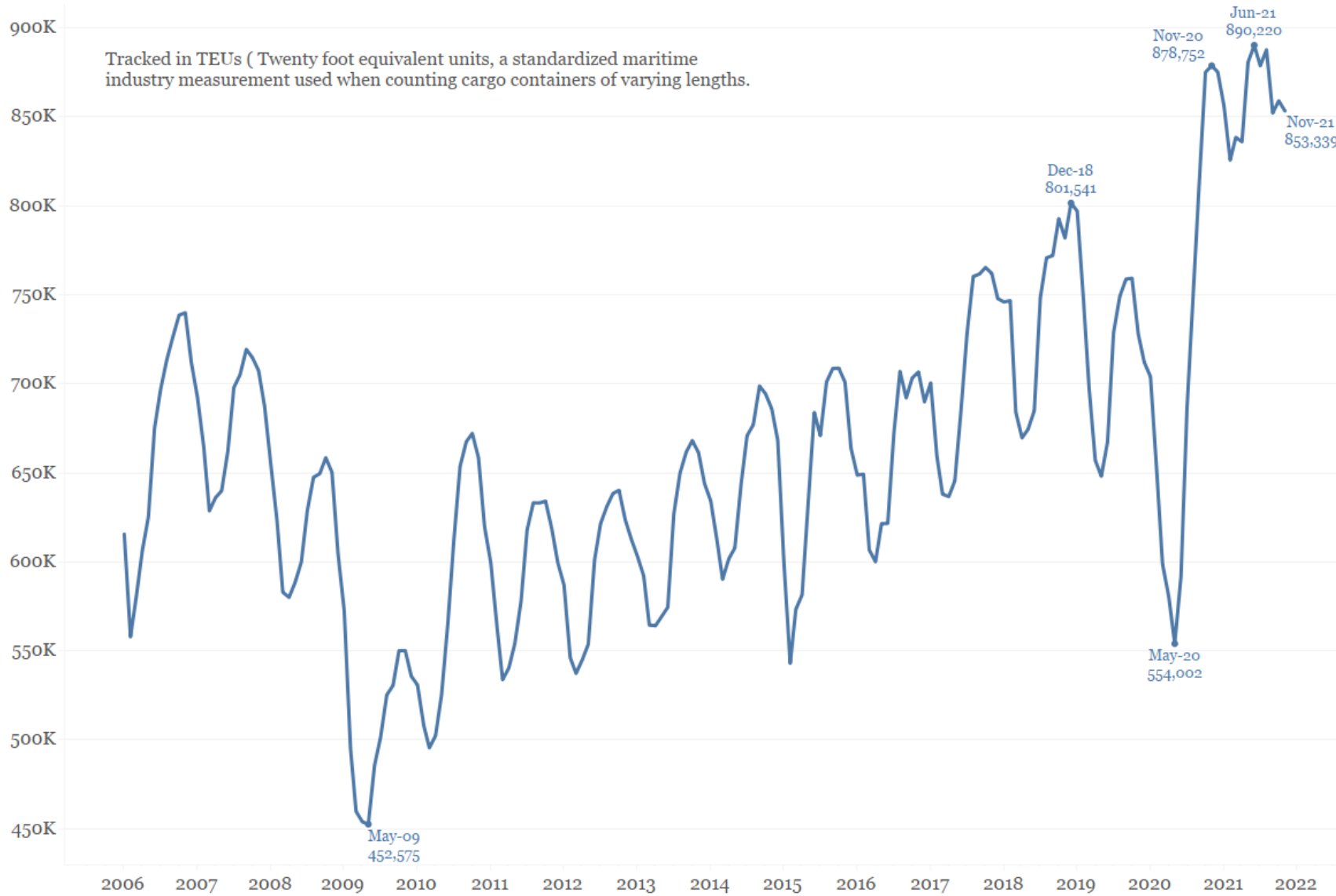
Upper Midwest - MN, WI, MI, IN, OH



Data Source: US Department of Health & Human Services, Bloomberg

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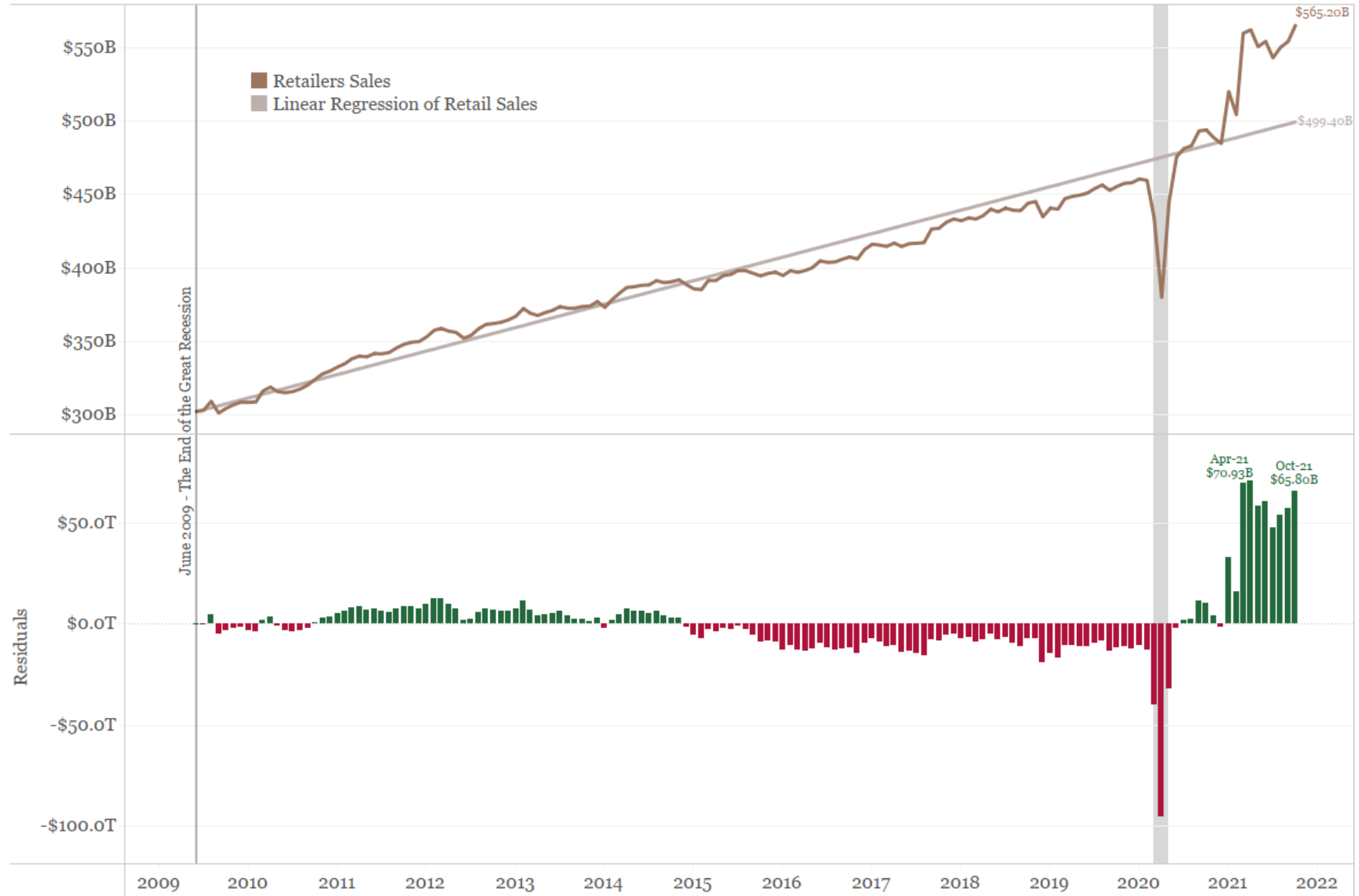
# Ports of Los Angeles and Long Beach Inbound TEU Containers 3-Month Average



Data Source: Bloomberg, The Port of Los Angeles and Long Beach

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# Retail Sales

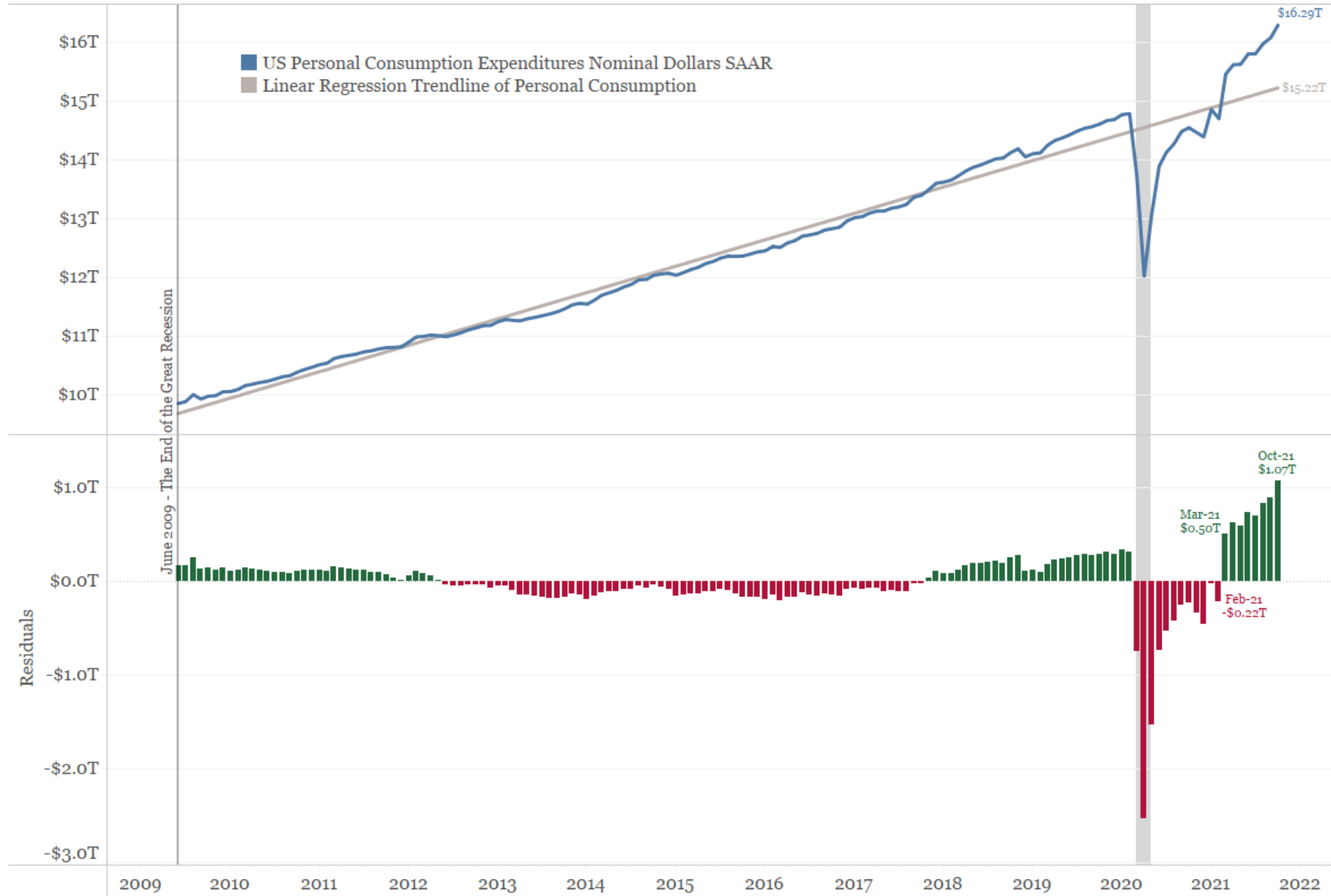


Source: Bureau of Economic Analysis, Bloomberg

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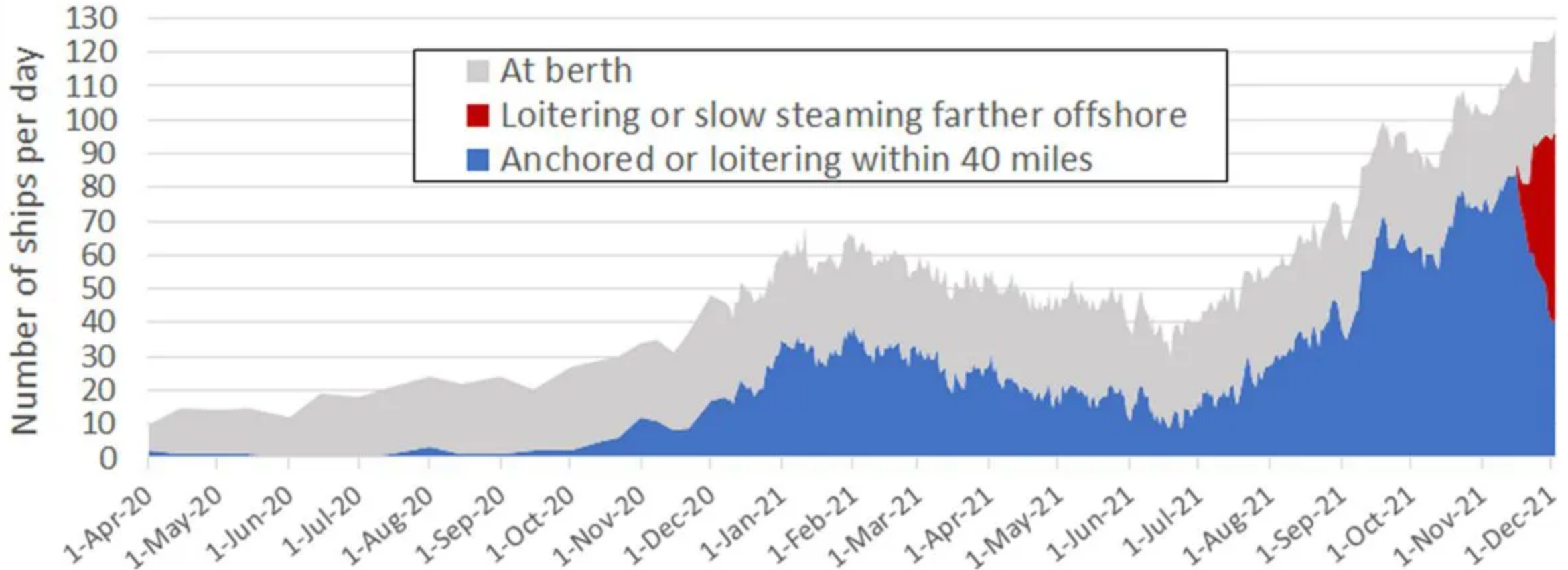
# Personal Consumption



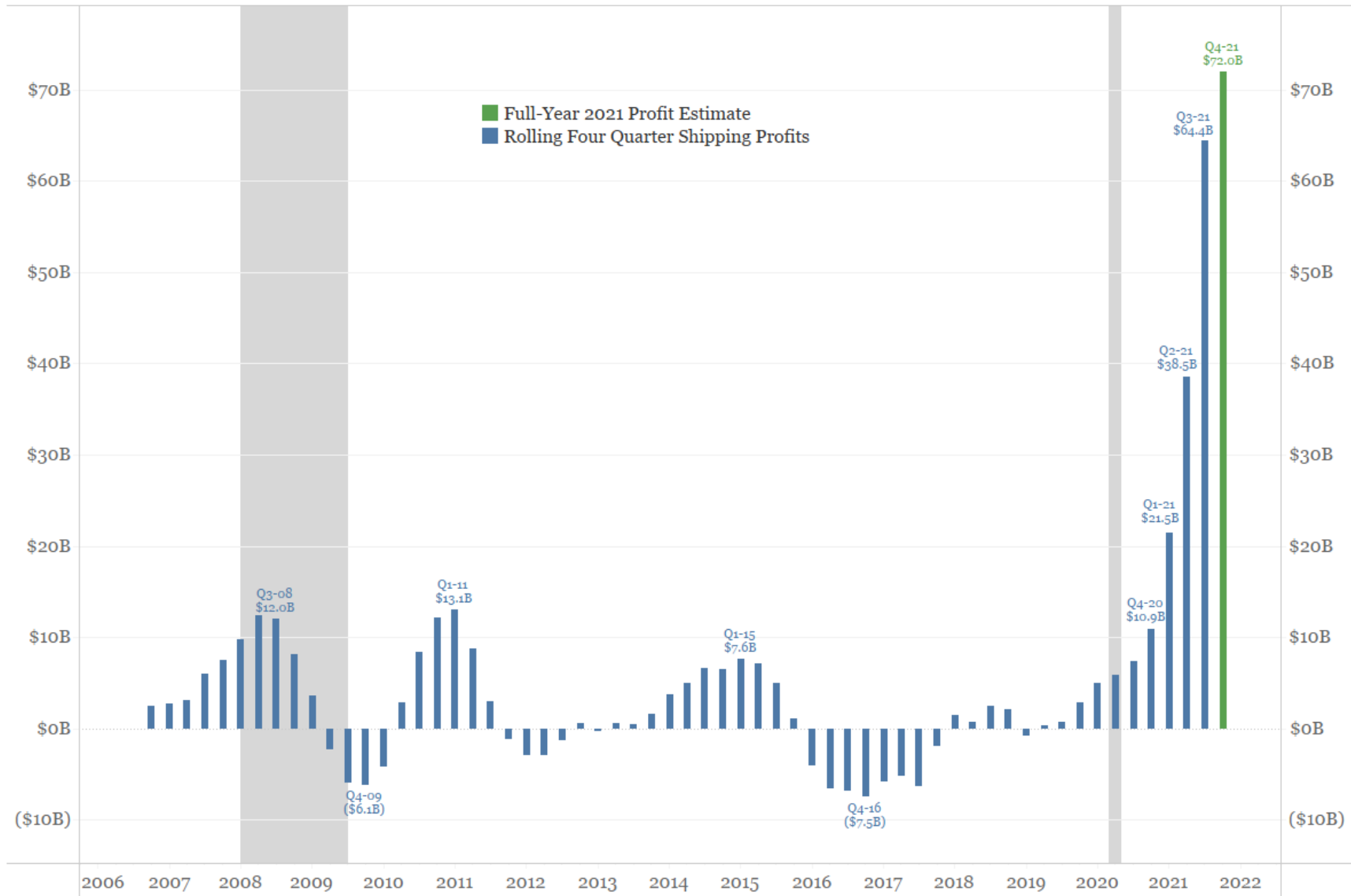
Source: Bureau of Economic Analysis, Bloomberg

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# Container ships waiting in Pacific and at berths in LA/LB Los Angeles



## Container Shipping Profits Boom! Rolling Four-Quarter Profits

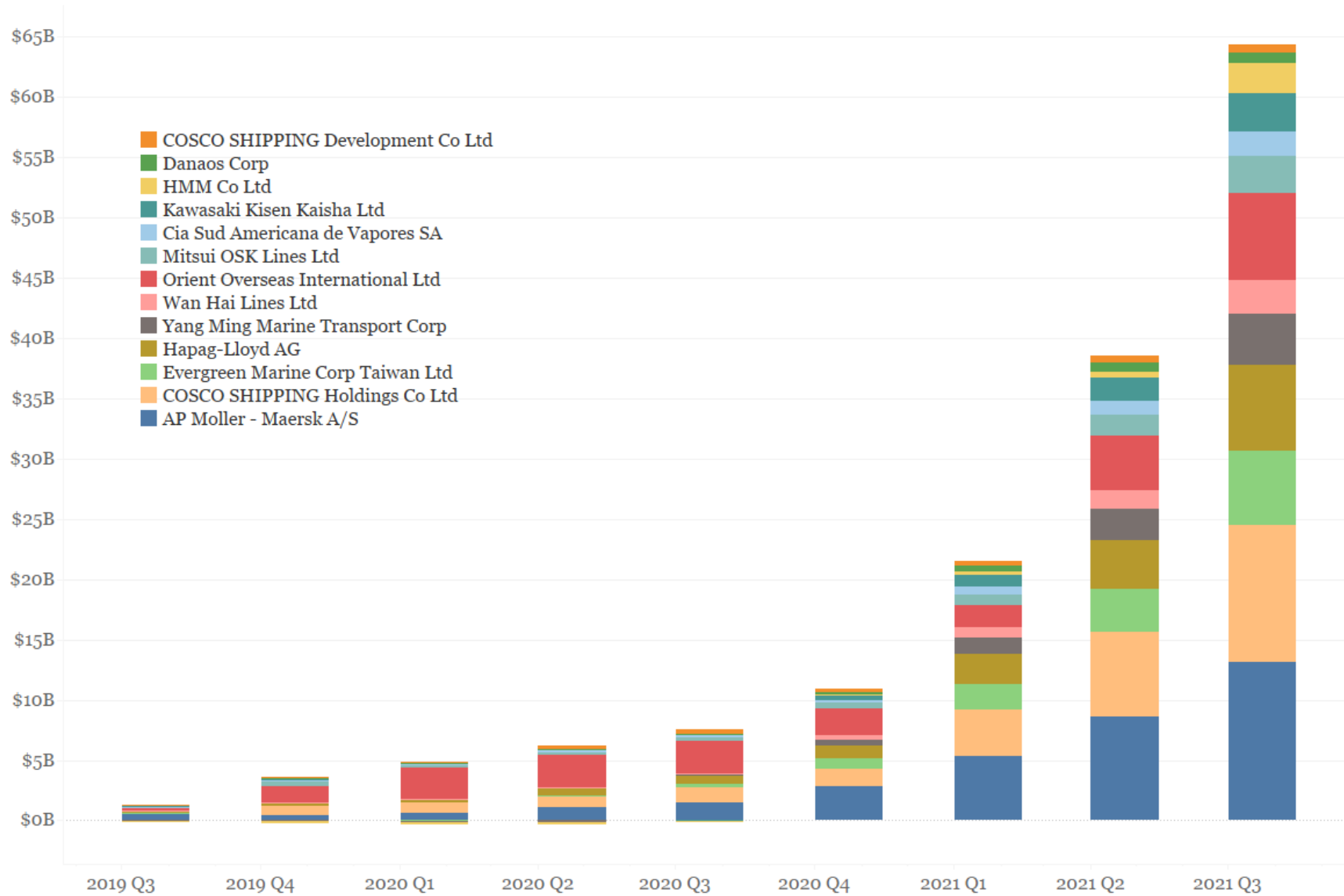


Source: Company Reports, Bloomberg

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## Detailing Container Shipping Profits

### Rolling 4-Quarter Profits

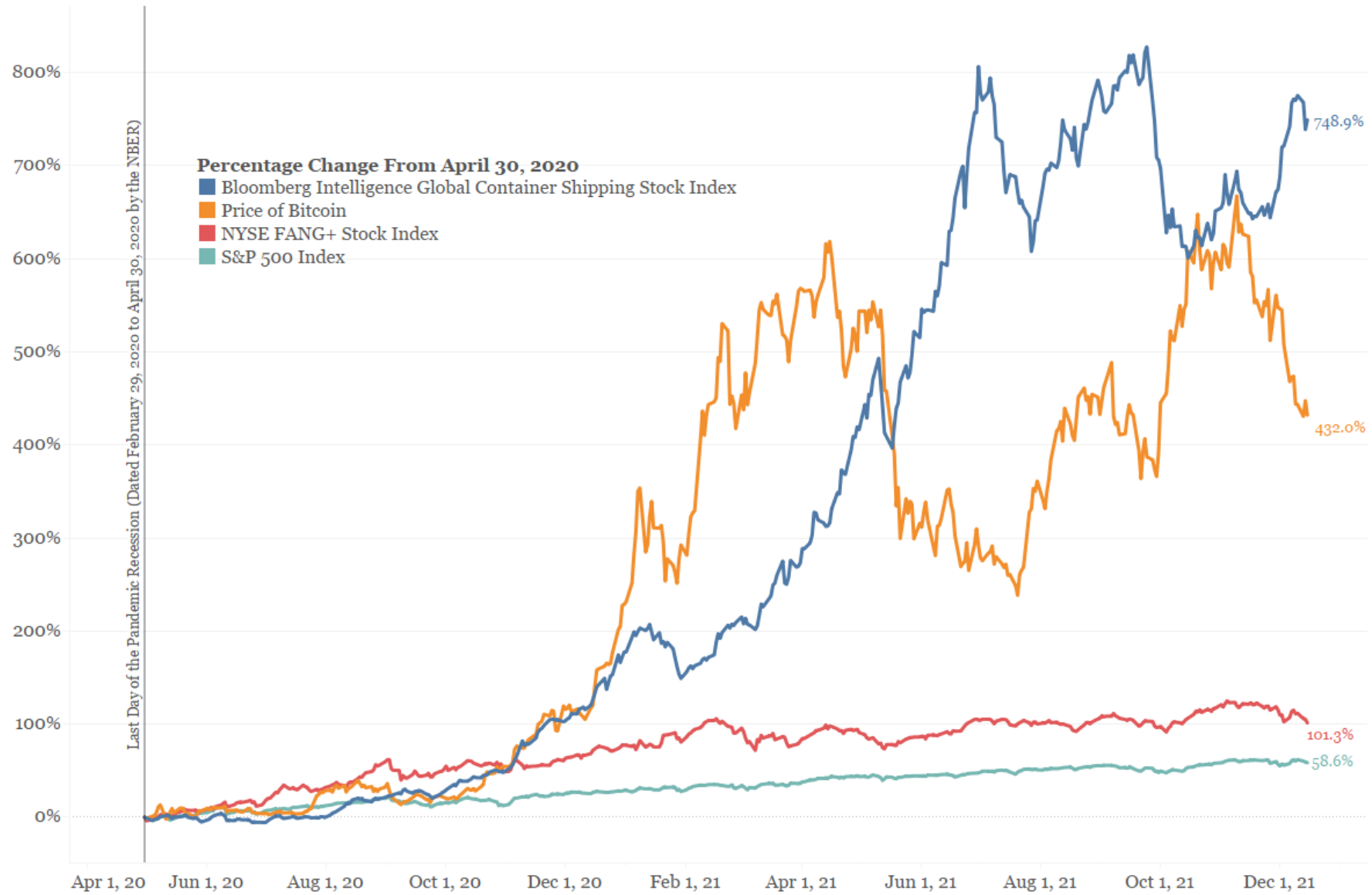


Source: Company Reports, Bloomberg

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## Ships Beat Bitcoin!

April 30, 2020 to December 15, 2021



Source: Company Reports, Bloomberg

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December 16, 2021

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