



**Scott Wren**  
Senior Global Market Strategist

Last Week's S&P 500 Index: +3.3%

## Easy? Yes, Easy

### Key takeaways

- Federal Reserve (Fed) Chair Jay Powell's comments regarding more flexibility surrounding inflation targeting were expected by the markets.
- The S&P 500 Index welcomed the policy confirmation by posting a new record high.

Investors took the announcement of the “new” Fed policies in stride as Chairman Powell outlined the U.S. central bank's current monetary thoughts digitally rather than what would have been a speech at the annual conference in Jackson Hole, Wyoming. In fact, the S&P 500 traded to a new all-time record high in the wake of the chairman's comments. The Fed has been trying to push inflation up to the 2% level without much to show for its efforts for the past 10 years, and forward expectations are for inflation to stay below that level over the next five years, even with easy monetary policy aimed at boosting economic growth.

Recall that the Fed has dual mandates as determined by Congress: maximum employment and price stability. In layman's terms, that means a lot of jobs along with low inflation (but not too low). Some investors wonder why central bankers want to see any inflation at all. Why wouldn't the Fed's target be zero? Because it fears deflation more than inflation. The last thing the Fed or any other major central bank on the planet wants is for consumers to hold off on buying something today because they think it will be cheaper tomorrow. Meaningful deflation translates into falling wages and falling home prices. To simplify, falling prices on flat-screen TVs: good. Falling home prices: bad.

Now back to last week's policy adjustment from the Fed. We expected the U.S. central bank to announce that it was not going to be tightly tethered to the 2% inflation target going forward. In other words, as we have argued, it would allow the economy to run “hot” and potentially push inflation above its long-held target. Indeed, inflation will be allowed to average approximately 2% when viewed over a longer timeframe. This period of below-target inflation would be averaged against higher inflation in the future (good luck with that in the near to intermediate term). The stock market has typically welcomed the early stages of inflation as it aids wages (leading, hopefully, to additional consumer spending) and pricing power for companies. Modest inflation, in most past cycles, has been a confirming signal that the underlying economy has picked up. It can also act as more of a leading indicator when looking at the price action of commodities like copper and steel. More demand relative to a given supply has often led to higher prices.

The stock market has counted on the Fed carrying a loose monetary policy forward for the foreseeable future. A low-rate policy coupled with monetary liquidity has been a major tailwind behind the 55%-plus rally we have seen in the S&P 500 Index since the March 23 intraday panic low. Chairman Powell's comments last week helped confirm our belief that the Fed is going to remain easy for an extended period of time.

**Investment and Insurance Products: NOT FDIC Insured ► NO Bank Guarantee ► MAY Lose Value**

**Risk Considerations**

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. Stock markets, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors.

**General Disclosures**

Global Investment Strategy (GIS) is a division of Wells Fargo Investment Institute, Inc. (WFII). WFII is a registered investment adviser and wholly owned subsidiary of Wells Fargo Bank, N.A., a bank affiliate of Wells Fargo & Company.

The information in this report was prepared by Global Investment Strategy. Opinions represent GIS' opinion as of the date of this report and are for general information purposes only and are not intended to predict or guarantee the future performance of any individual security, market sector or the markets generally. GIS does not undertake to advise you of any change in its opinions or the information contained in this report. Wells Fargo & Company affiliates may issue reports or have opinions that are inconsistent with, and reach different conclusions from, this report.

The information contained herein constitutes general information and is not directed to, designed for, or individually tailored to, any particular investor or potential investor. This report is not intended to be a client-specific suitability or best interest analysis or recommendation, an offer to participate in any investment, or a recommendation to buy, hold or sell securities. Do not use this report as the sole basis for investment decisions. Do not select an asset class or investment product based on performance alone. Consider all relevant information, including your existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon. The material contained herein has been prepared from sources and data we believe to be reliable but we make no guarantee to its accuracy or completeness.

Wells Fargo Advisors is registered with the U.S. Securities and Exchange Commission and the Financial Industry Regulatory Authority, but is not licensed or registered with any financial services regulatory authority outside of the U.S. Non-U.S. residents who maintain U.S.-based financial services account(s) with Wells Fargo Advisors may not be afforded certain protections conferred by legislation and regulations in their country of residence in respect of any investments, investment transactions or communications made with Wells Fargo Advisors.

Wells Fargo Advisors is a trade name used by Wells Fargo Clearing Services, LLC and Wells Fargo Advisors Financial Network, LLC, Members SIPC, separate registered broker-dealers and non-bank affiliates of Wells Fargo & Company. CAR 0820-00109