10 May, 2021

Yellen comments on interest rate worries over financial markets

On May 4, U.S. Treasury Janet Yellen said she expected any near term Fed may increase interest rates at some points to cool off an economy moving too fast. “It may be that interest rates will have to rise somewhat to make sure that our economy doesn't overheat, even though the additional spending is relatively small relative to the size of the economy,” "It could cause some very modest increases in interest rates to get that reallocation." On the burgeoning economic growth brought on in part by trillions in stimulus spending, a total of 2.8 trillion relief plan since December 2020. After the inflation comments made by Yellen, a former Federal Reserve chair, deepened a selloff in tech stocks while longer-dated treasury yields remain steady. She later explained her comments on interest rate might have to adjust to Biden’s stimulus plan. "That’s not something I’m predicting or recommending. If anybody appreciates the independence of the Fed, I think that person is me", clarifying comments that ruffled financial markets a few hours earlier.

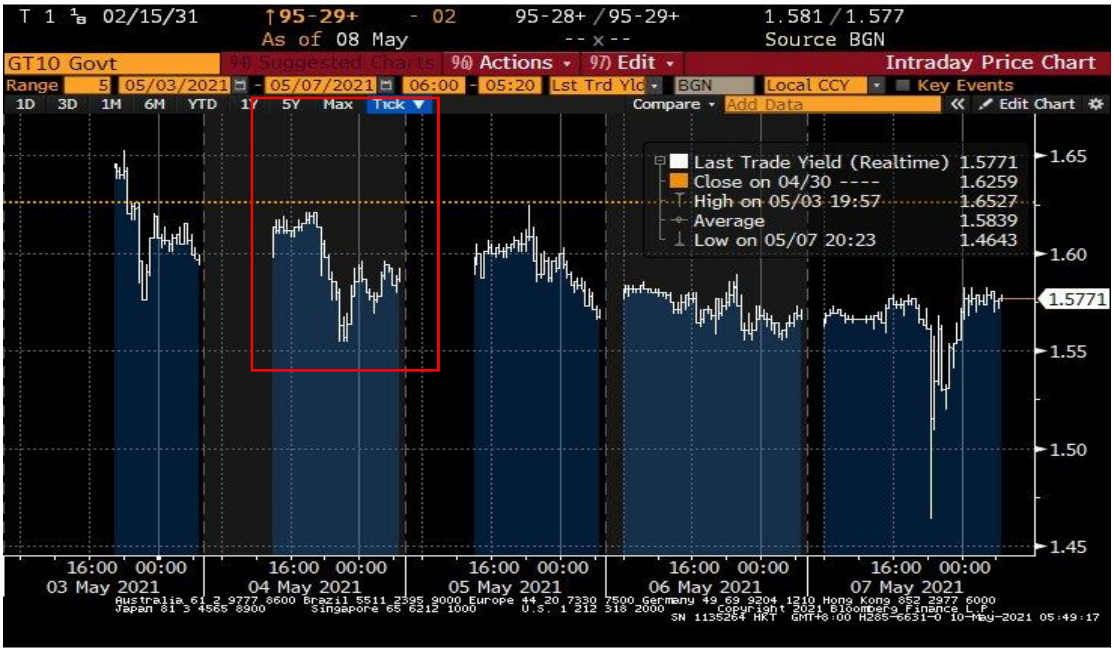
Despite the sharp rise of Treasury bond yield this year, especially in the first quarter on the growing expectations for economic recovery from the pandemic recession, Powell, the chair of Fed, has repeatedly emphasized that the Fed is nowhere close to raise interest rate, any price increases would be transitory because of supply chain shortages and the rebound in oil prices to pre-pandemic levels. But that if one occurred the central bank has the tools to deal with it. The economy appears a long way from its goals of full employment and inflation 2% target.

According to U.S. Labor Department, the inflation rate hit 2.6% in March, marking the highest level seen since 2008 and breaching the Federal Reserve's 2% target. Price from copper to oil have skyrocketed, these increase have aroused the market worries over inflationary might come soon.

After comments made by Yellen, deepened a selloff in tech stocks. The Nasdaq Composite was down near 1.9% ended the day with worries amid potential interest rate rises hitting high value growth stocks.

Source: Bloomberg

Meanwhile the 10 Years Treasury Yield had no obvious surge



Source: Bloomberg

Inflationary pressure will further increase in near term?

The economy is on its path to recovery but it is still far from pre-pandemic level. Yet investors and market watchers are already worried it might be growing too fast. US gross domestic product increased at an annualized rate of 6.4% during the first quarter, the Labor Department reported. Goldman Sachs recently said it anticipates the second quarter growing around 10.5%. Trillion dollars from pandemic relief packages have injected into the economy which drove the stock market to a record high. Not to mention the Biden administration is pushing other stimulus plan that could see another trillion spent on a variety of longer-term projects, such as education, infrastructure and social welfare.

As the economy continues to re-open through widespread vaccination, resulted to an improving pandemic outlook, some previously implemented lockdown measurements and restrictions on activity are widely lifted. Thus, economic activities may be resumed further substantially in the coming months. The lagged demand is seen broadening and also driven up the prices of commodities, such as copper and oil. Signs have already arrived showing that inflation will tilt higher, at least in the coming months. Growth and tech stocks may be under pressure again over the steadily increasing inflation.

Source: Bloomberg News, Yahoo Finance, WSJ, Finance Times, Investors.com, Reuters, the Washington Post, the Guardian

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