FED SURVEY
September 21, 2021

These survey results represent the opinions of 32 of the nation's top money managers, investment strategists, and professional economists.

They responded to CNBC's invitation to participate in our online survey. Their responses were collected on September 16-18, 2021.

Participants were not required to answer every question.

Results are also shown for identical questions in earlier surveys.

This is not intended to be a scientific poll and its results should not be extrapolated beyond those who did accept our invitation.

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… should reduce asset purchases now?

18. At what level do you expect year-over-year U.S. headline inflation to peak?

19. What do you expect the U.S. unemployment rate will be for:

20. The recent difficulty businesses have had hiring workers is primarily:

Which of these factors is most responsible?

21. Will Jay Powell be renominated as Federal Reserve chair:

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23. Recent disclosure statements from several Federal Reserve bank presidents show that some engaged in multiple sales of individual stocks while others acquired or held assets the Fed itself was buying as part of its monetary policy. From what you know of these transactions, they:

24. Should Fed officials be prohibited from owning individual stocks?

25. Other than Treasurys and Treasury bond funds, should Fed officials be prohibited from buying, selling, and owning the same assets the Fed is buying as part of its monetary policy?

26. What is your primary area of interest?

Comments

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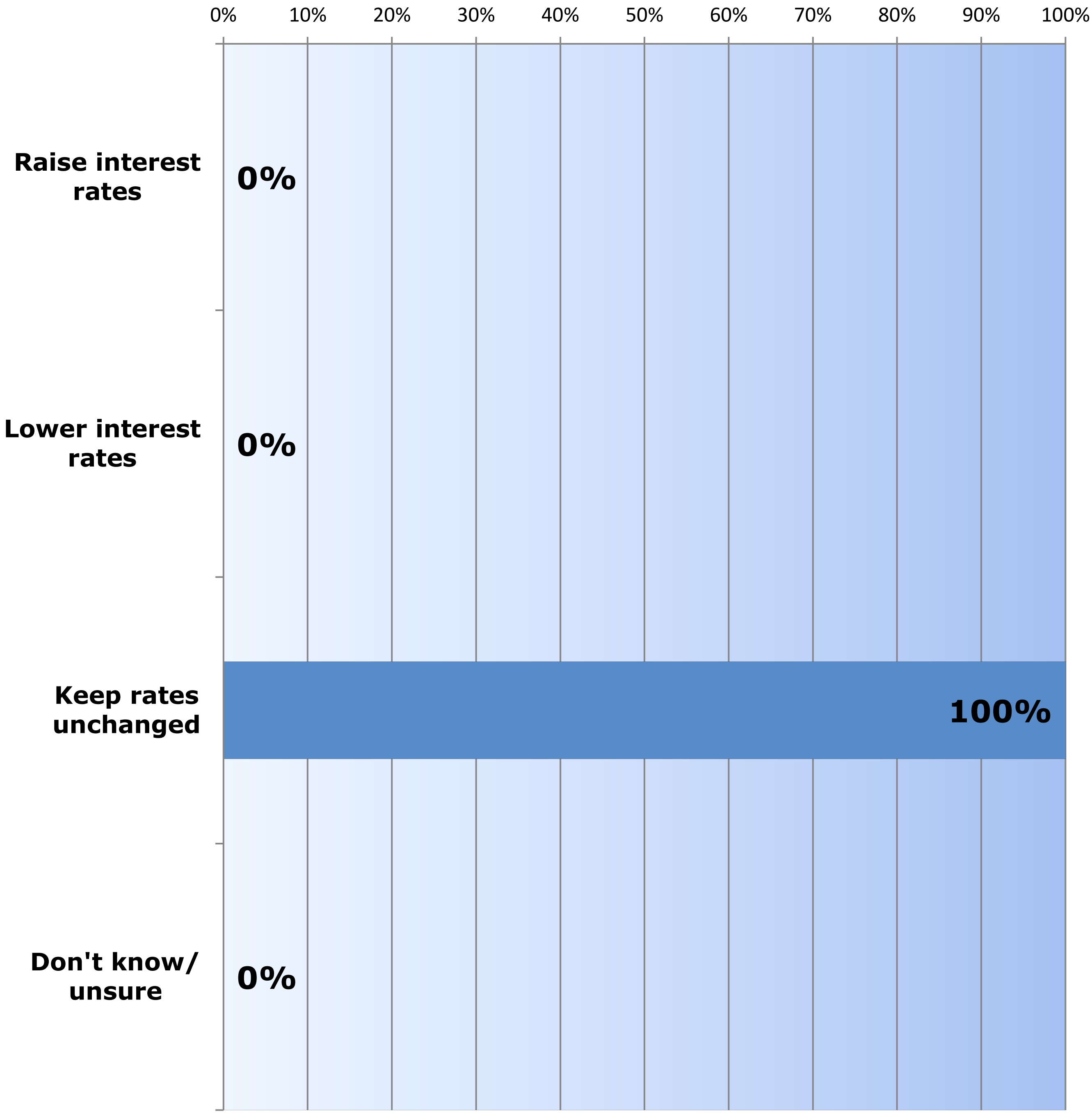
1. At its September meeting, the Federal Reserve will:



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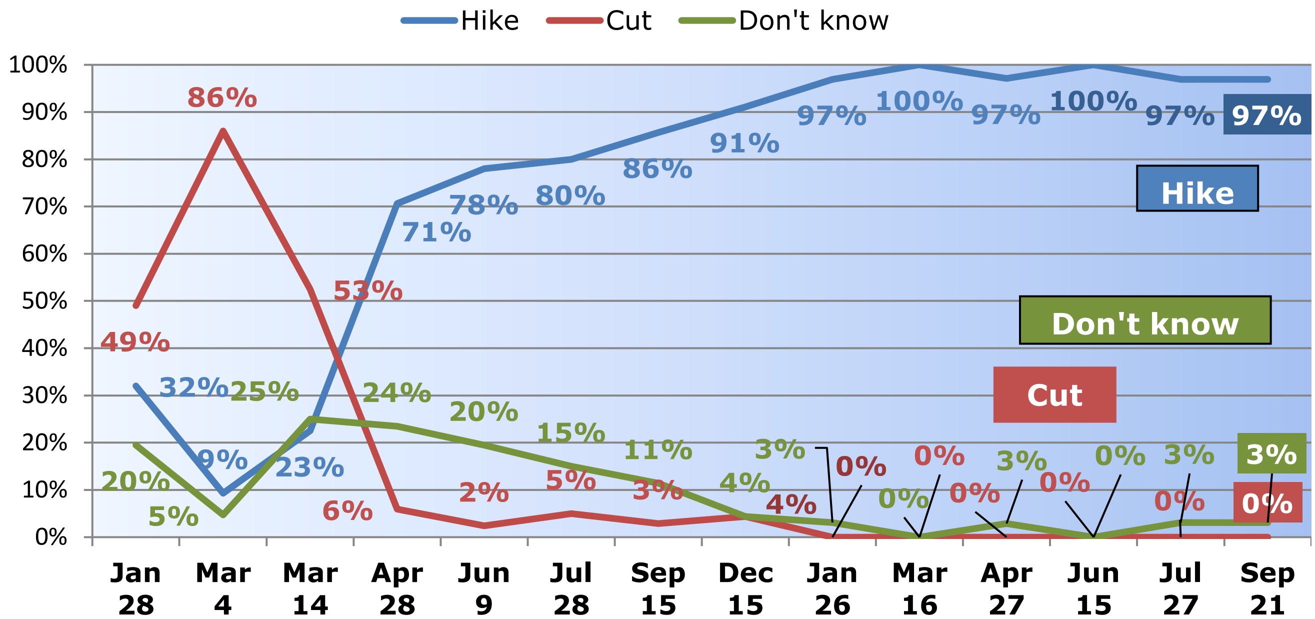
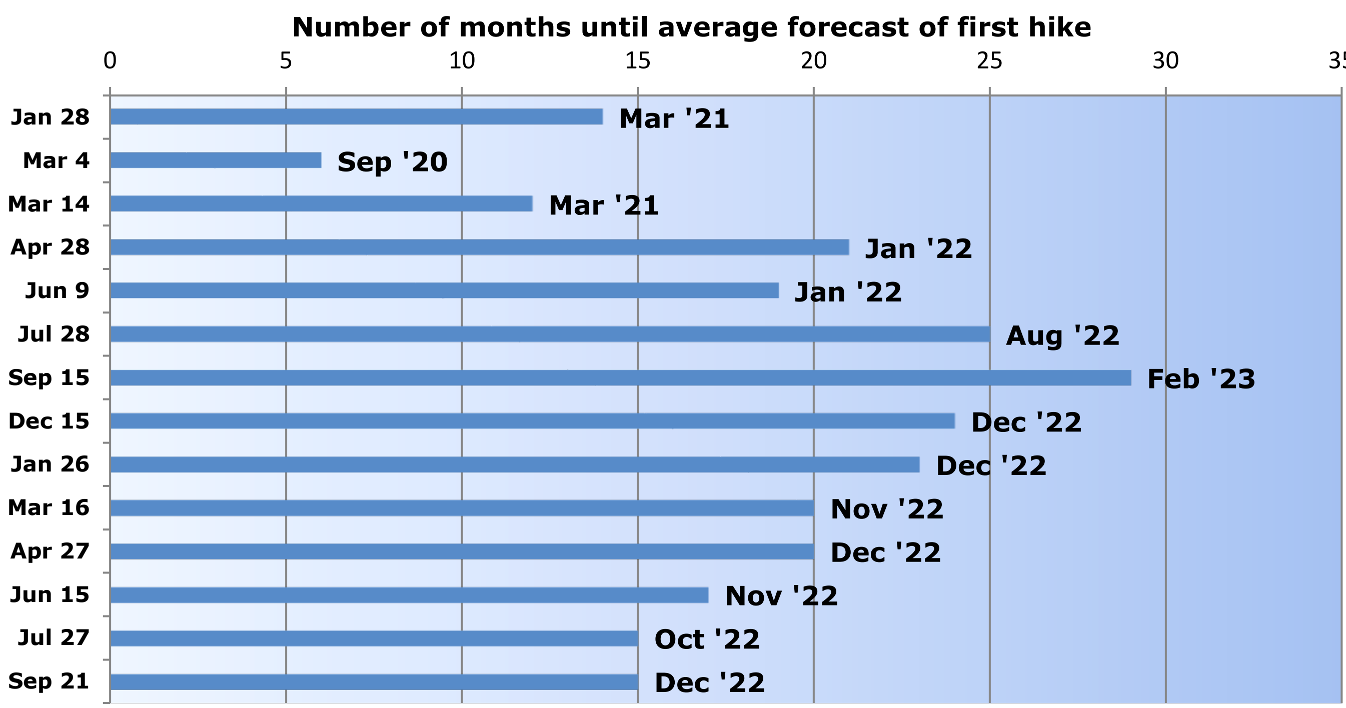
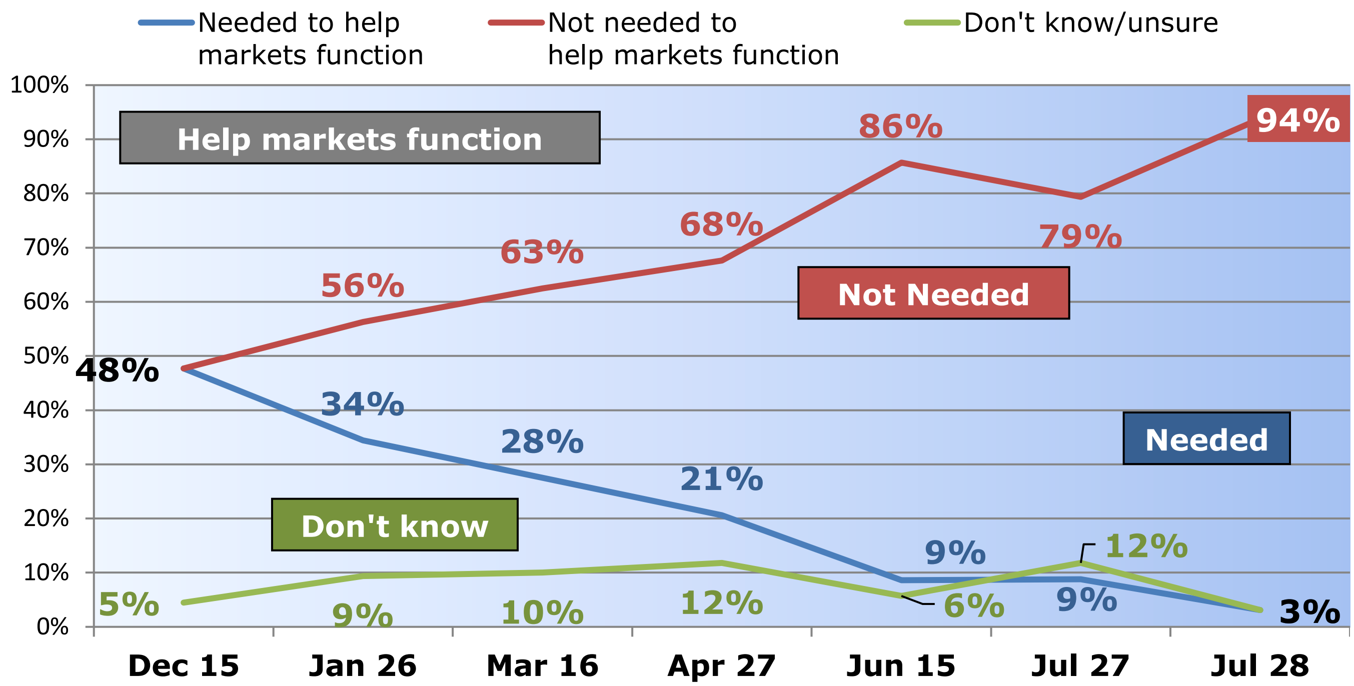
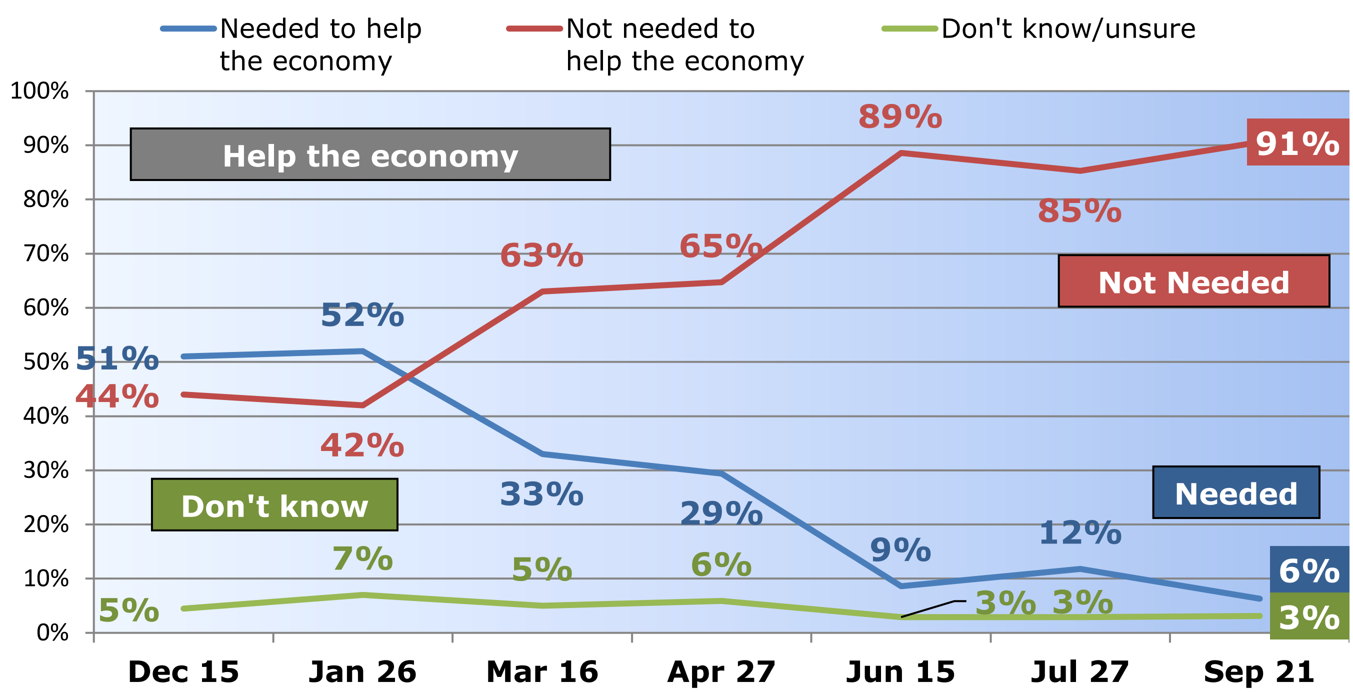
2. After this month's meeting, will the Fed's next directional move be a hike or a cut?



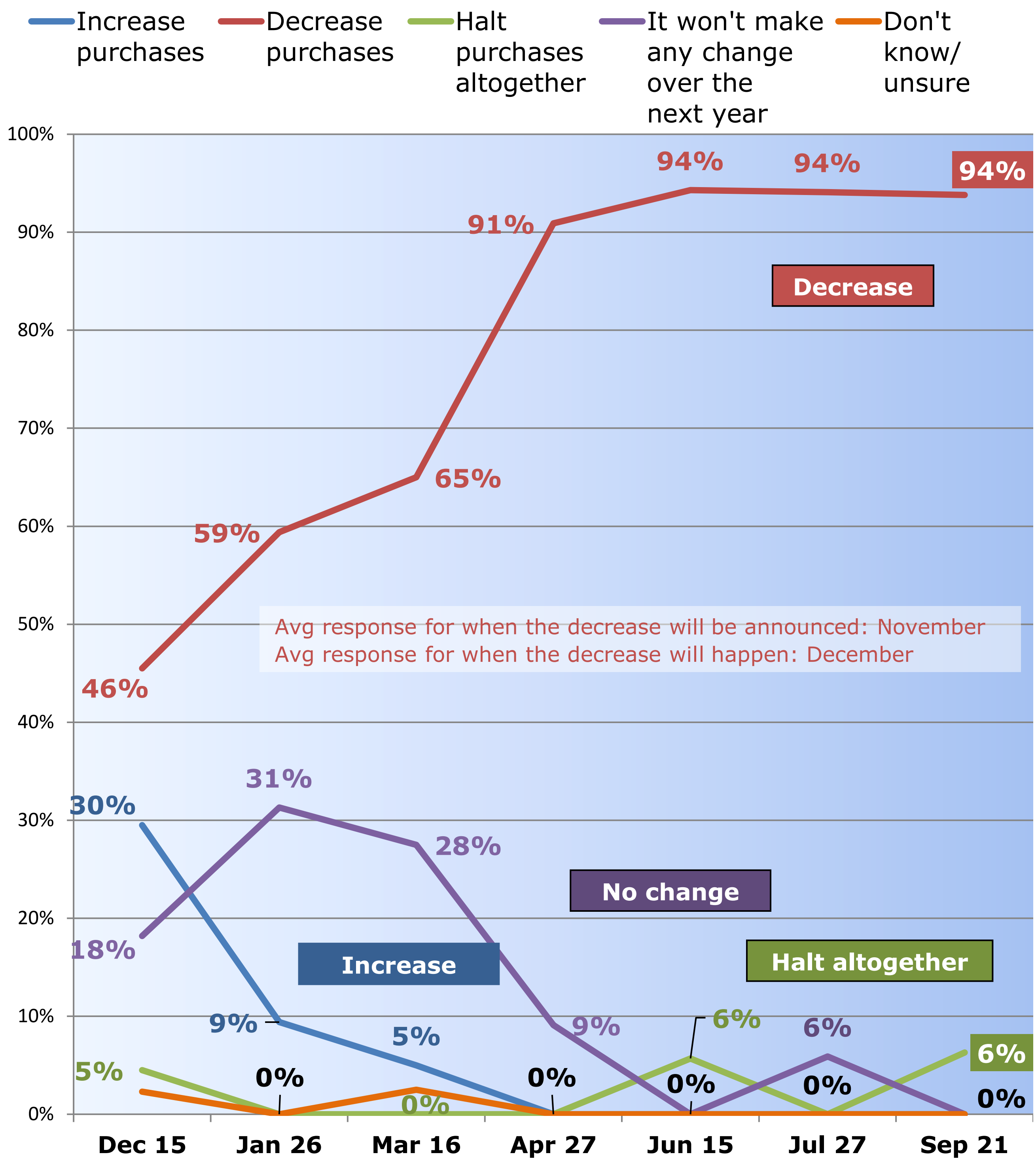


3. The Fed is currently purchasing about $120 billion in securities each month. The purchases are:

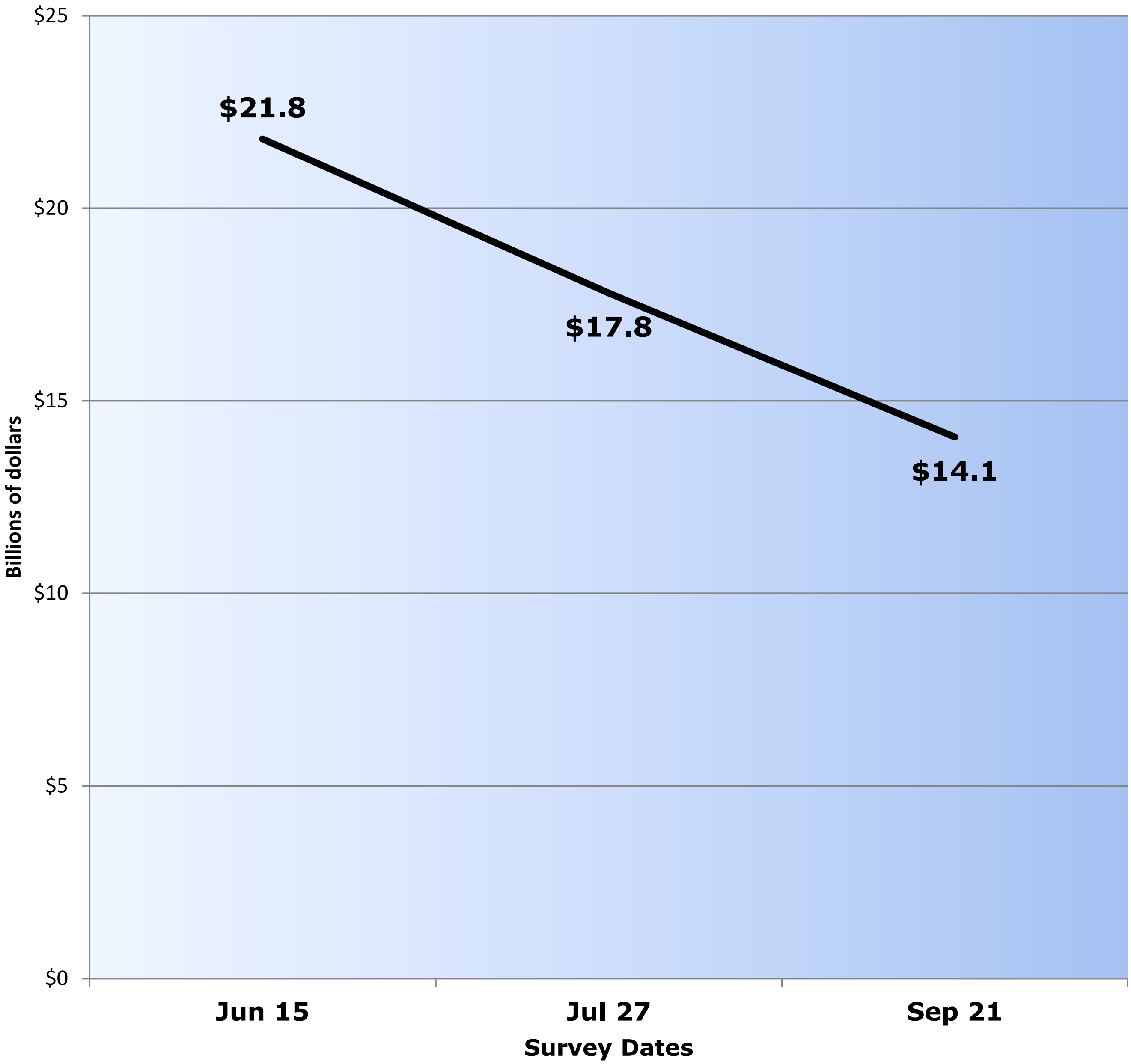




4. Over the next year, the first change the Fed will make to its monthly securities purchases is to:



5. Once the Fed decides to taper, by how much do you believe it will reduce its purchases each month:



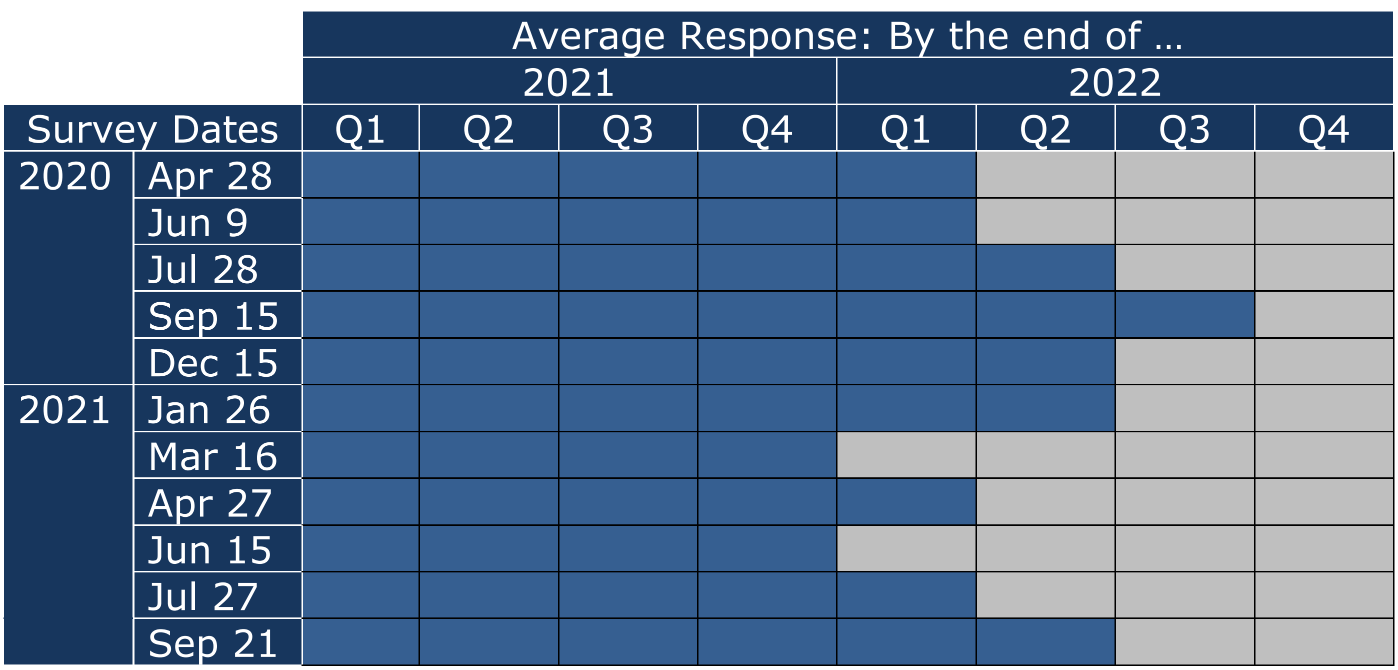
6. By how much has the recent spread of the Delta variant CHANGED your view for the entire year for:

	Average Response (pct. points)
GDP	**-0.65**
Inflation	**+0.07**
Unemployment	**+0.08**

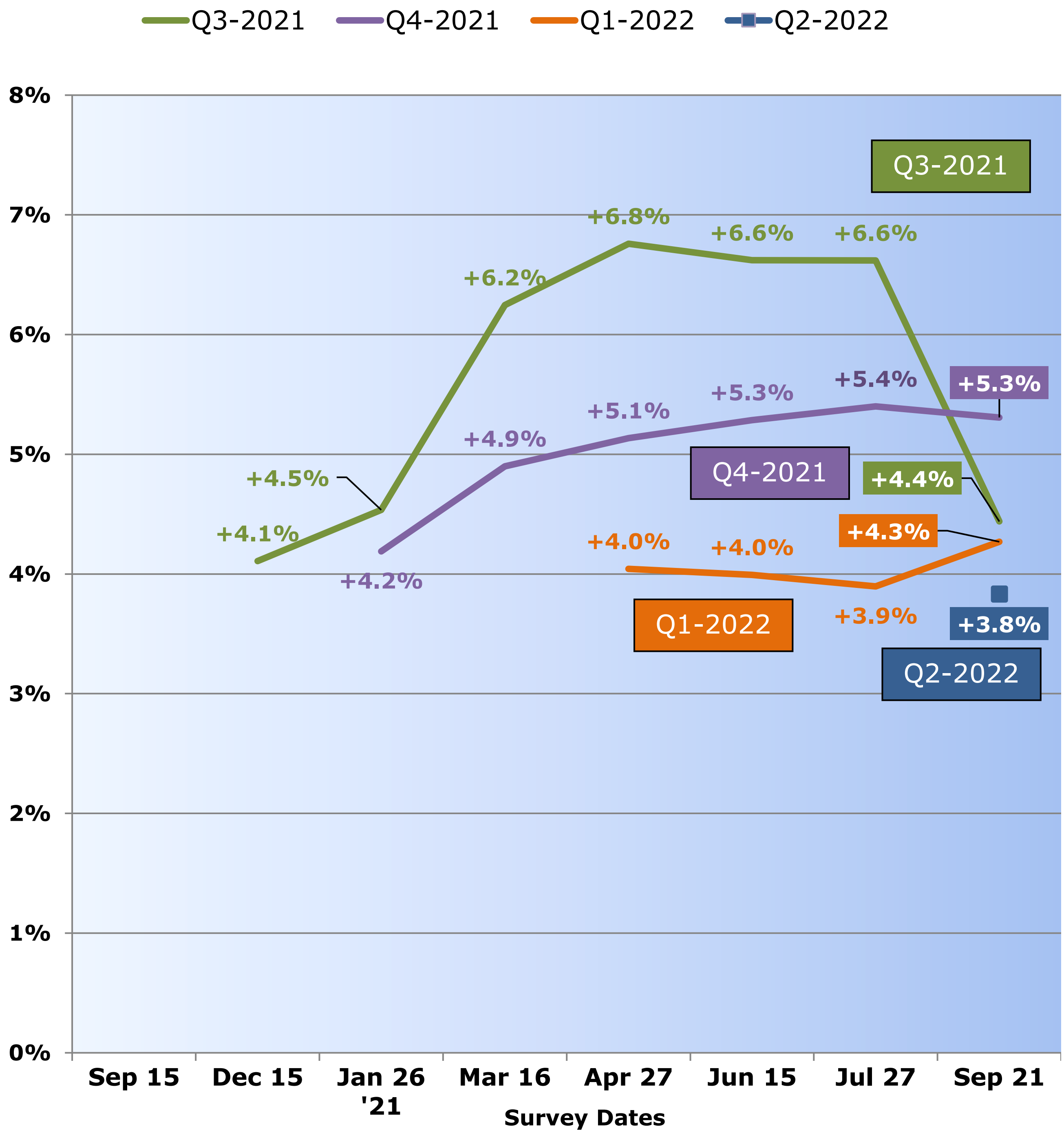
7. When do you believe economic activity in the U.S. will be fully restored?

For the first time in this series, an option to select "It has already been restored" was provided. It was chosen by 52% of the respondents.

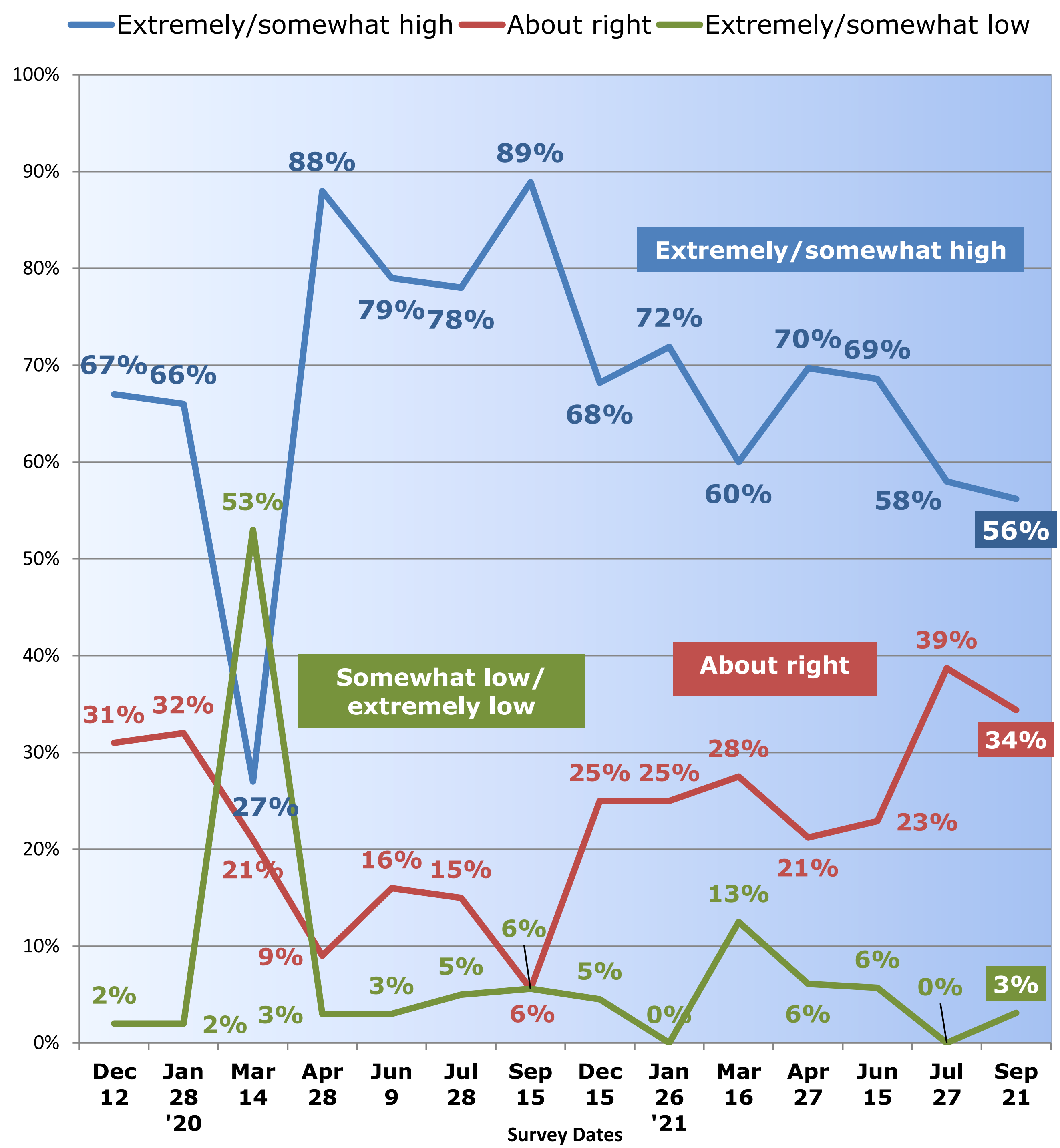
For the 48% of those who did chose a future date:



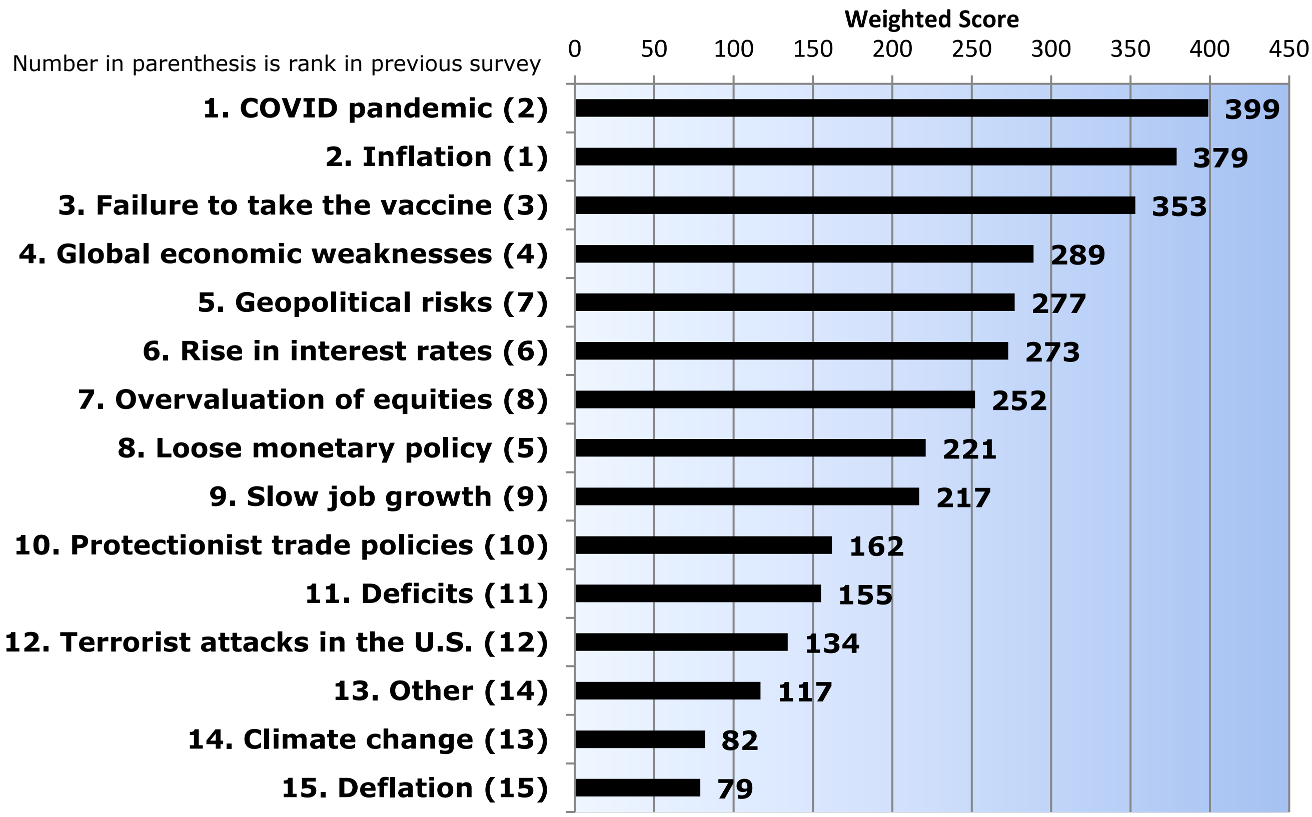
8. What is your q/q forecast for annualized GDP growth in:



9. Relative to your forecasts for earnings and economic growth, stock prices now are:



10. Please rank the following by how much risk they pose to the U.S. economy:



Other responses:

- We are riding a knife's edge; if COVID continues to disrupt supply chains more than growth, inflation will linger longer. If demand is disrupted more than expected, inflation will dissipate and healing in labor markets will be delayed.
- China Minsky moment
- Tax hikes on companies could deter investments
- Tax policy
- By "overvaluation of equities," I assume you mean the correction of that overvaluation.
- Fiscal policy gridlock
- Tax increases and regulation
- Policy Cliff for 2022 -- end of additional monetary & fiscal juice
- COVID, COVID, COVID, COVID!
- Supply constraints in the product and labor markets
- Obfuscation by central banks is a risk
- Biden's tax hikes

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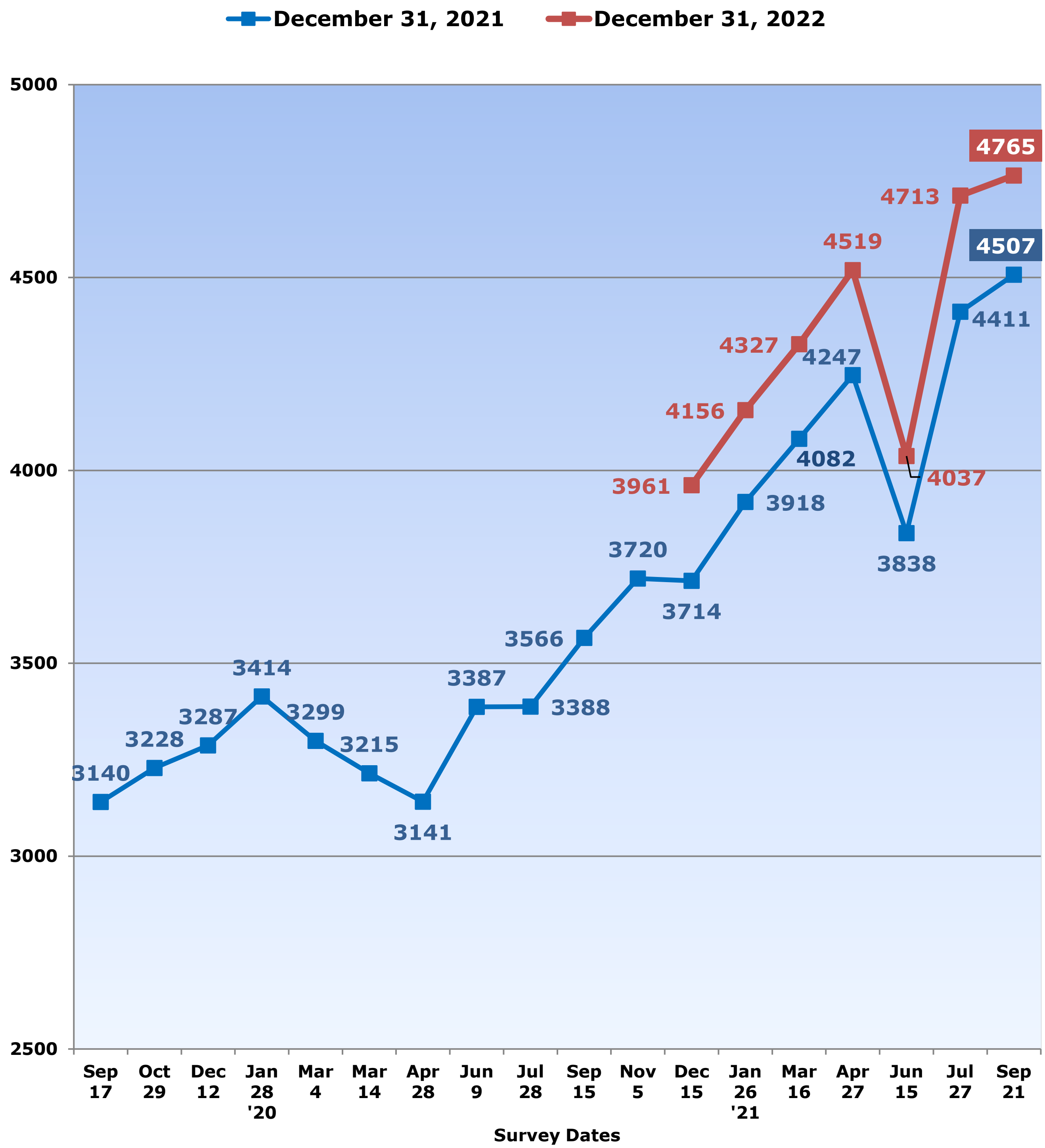
11. Where do you expect the S&P 500 stock index will be on …?



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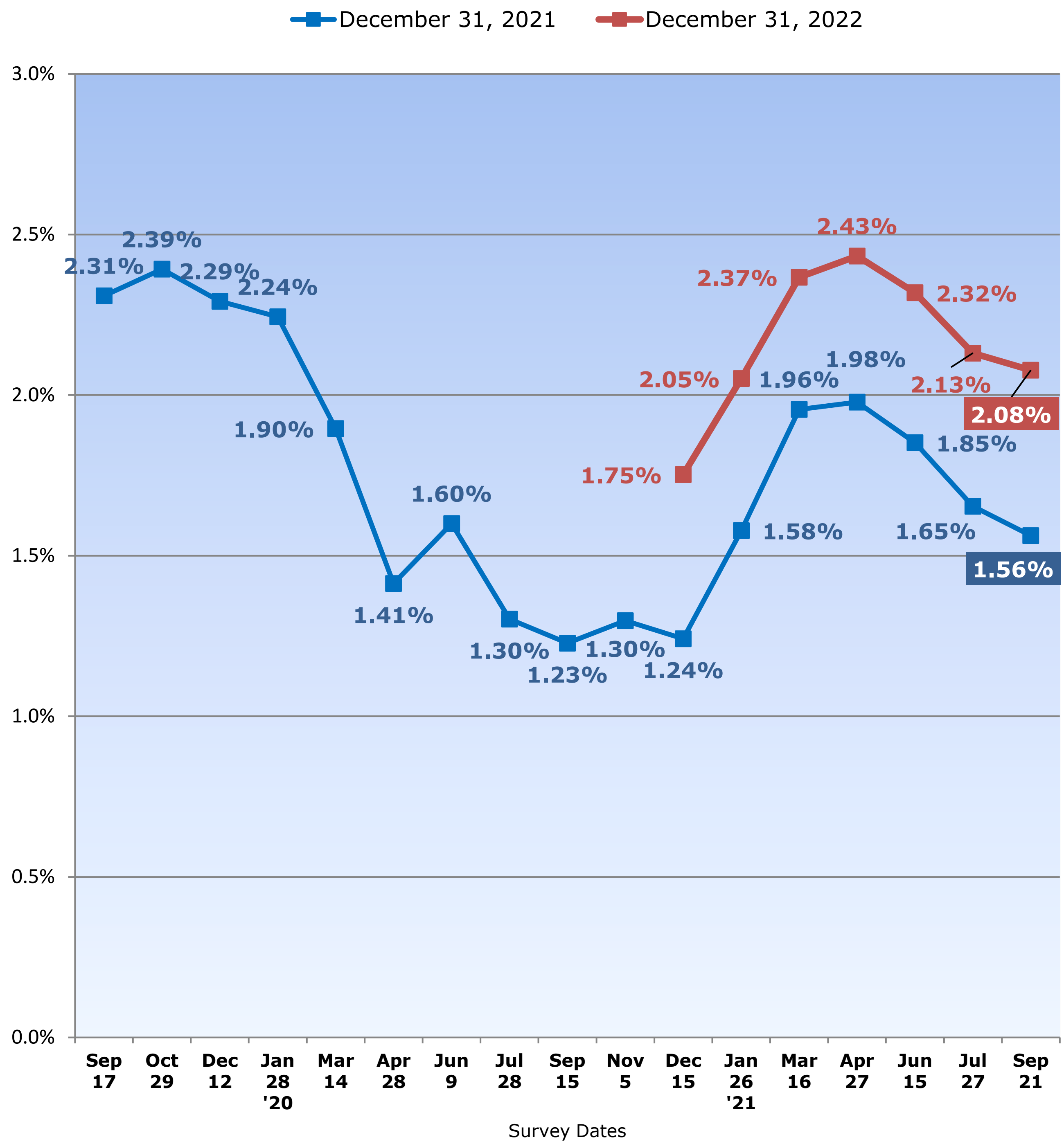
12. What do you expect the yield on the 10-year Treasury note will be on … ?



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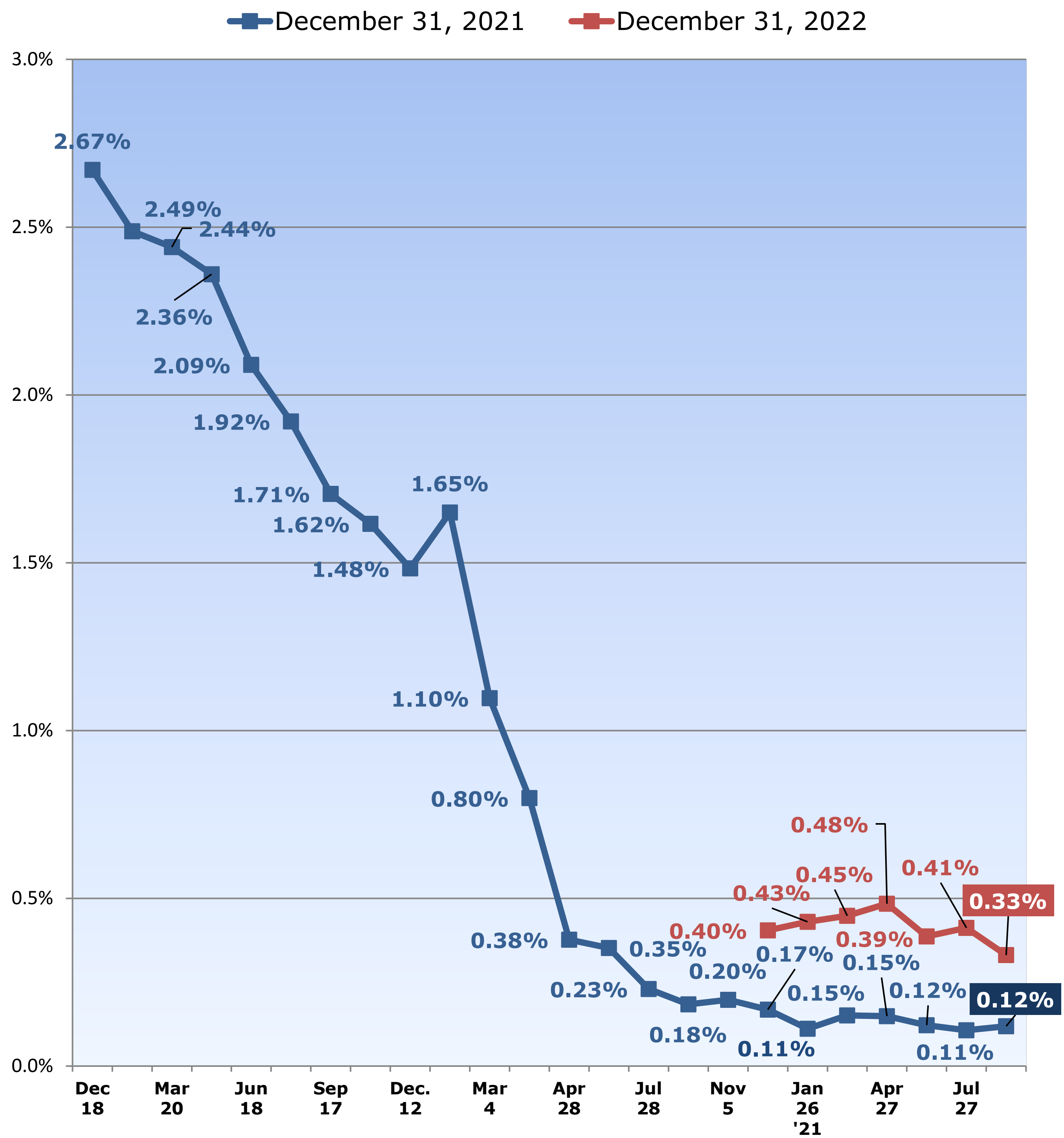
13. Where do you expect the fed funds target rate will be on …?



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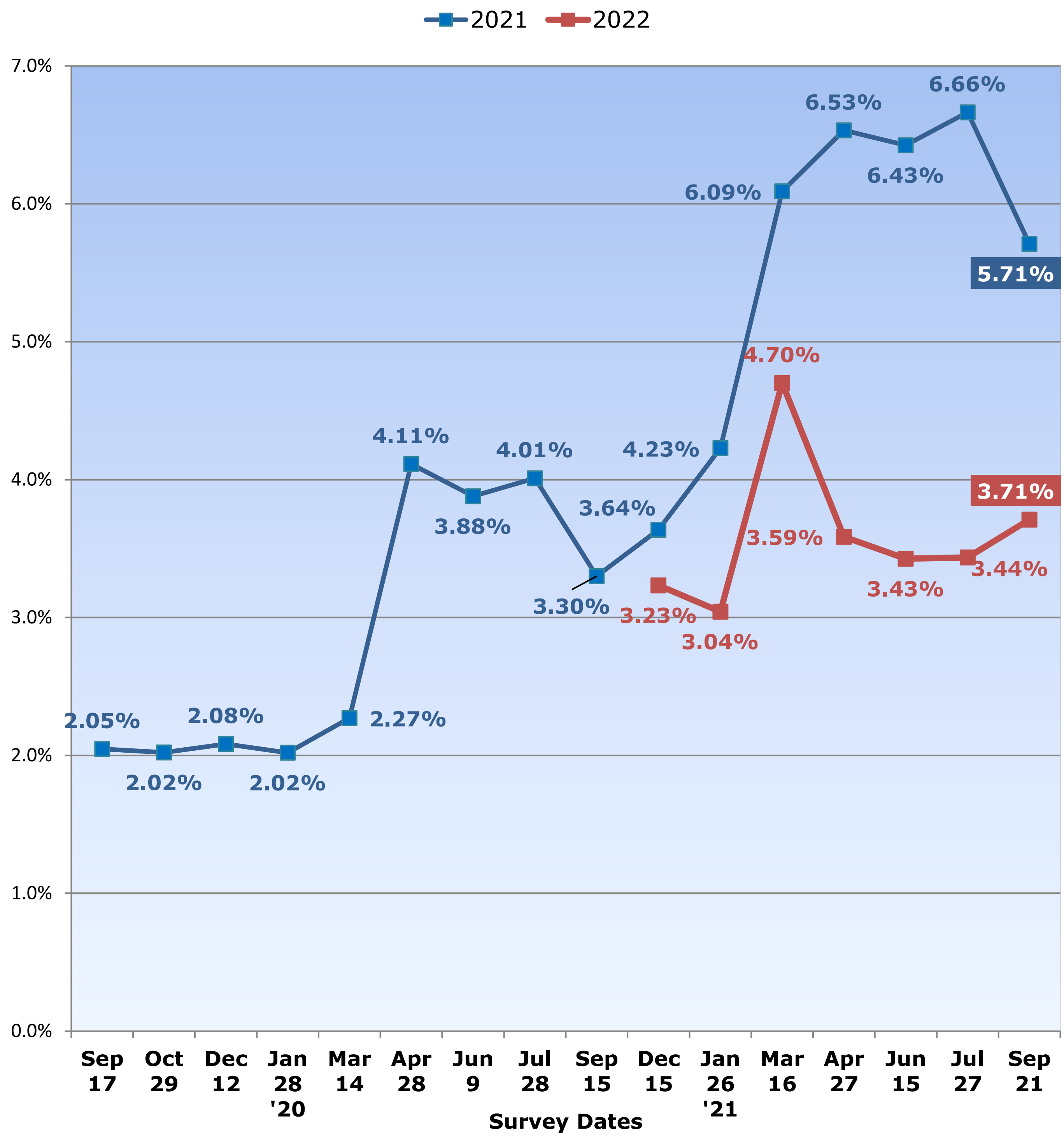
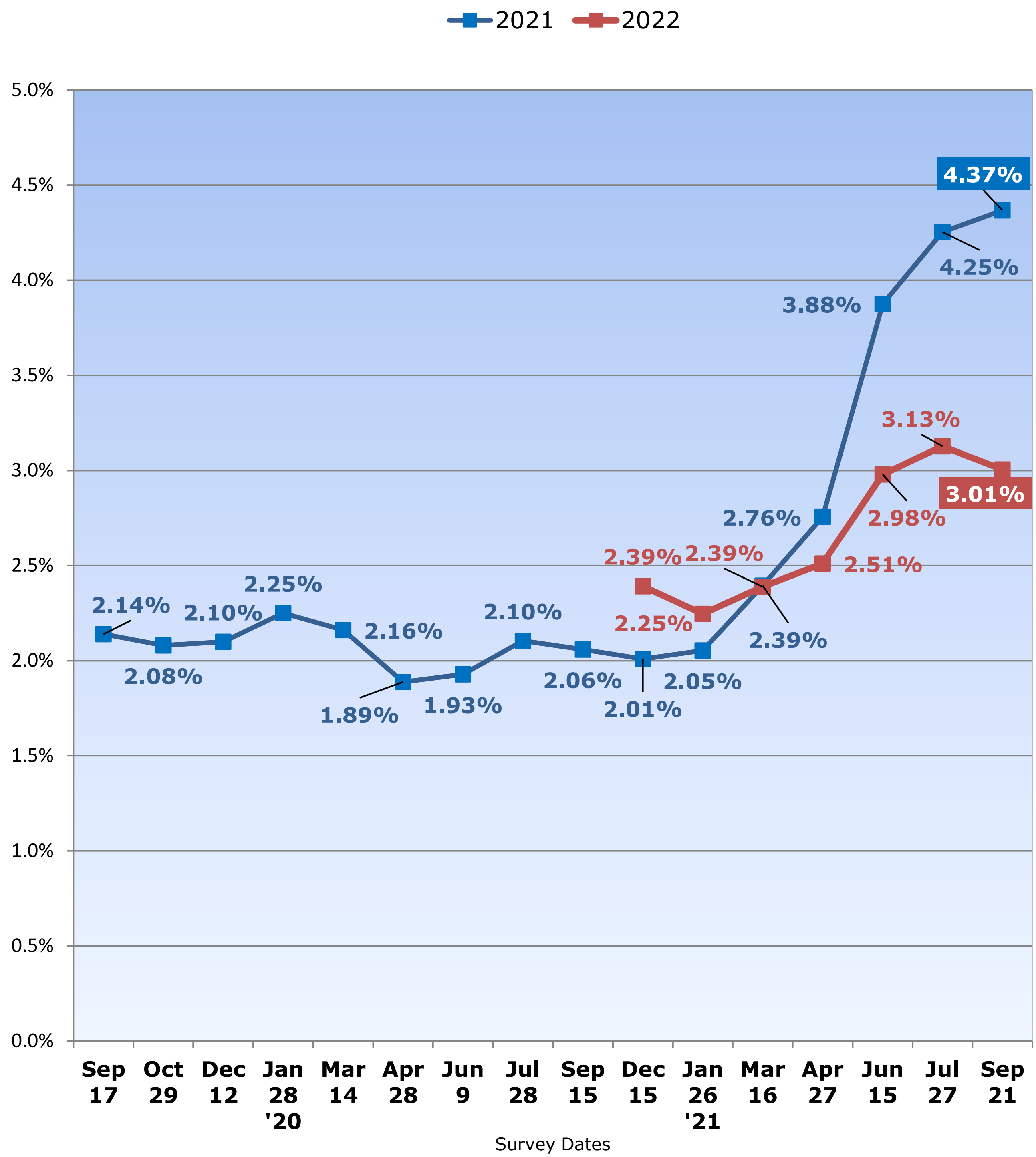
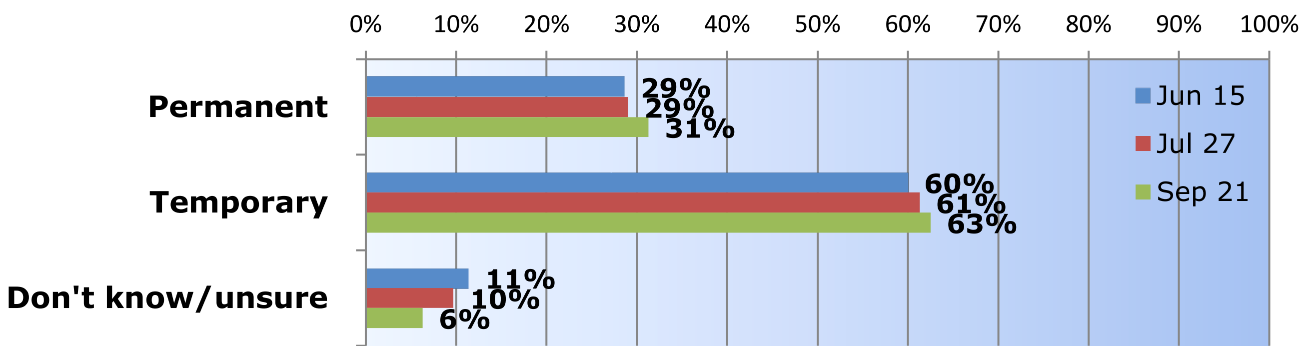
14. What is your forecast for the Q4/Q4 percentage change in real U.S. GDP for … ?



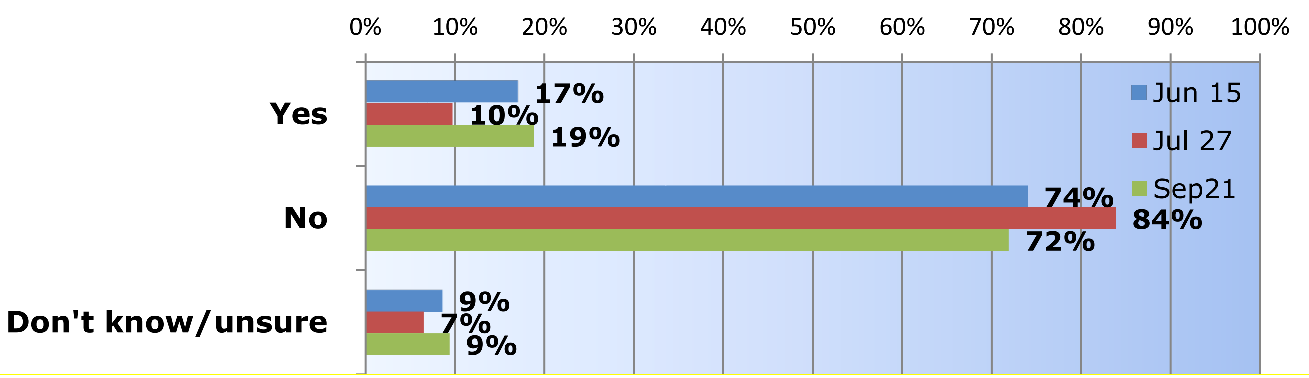
15. What is your forecast for the year-over-year percentage change in the headline U.S. CPI for …?



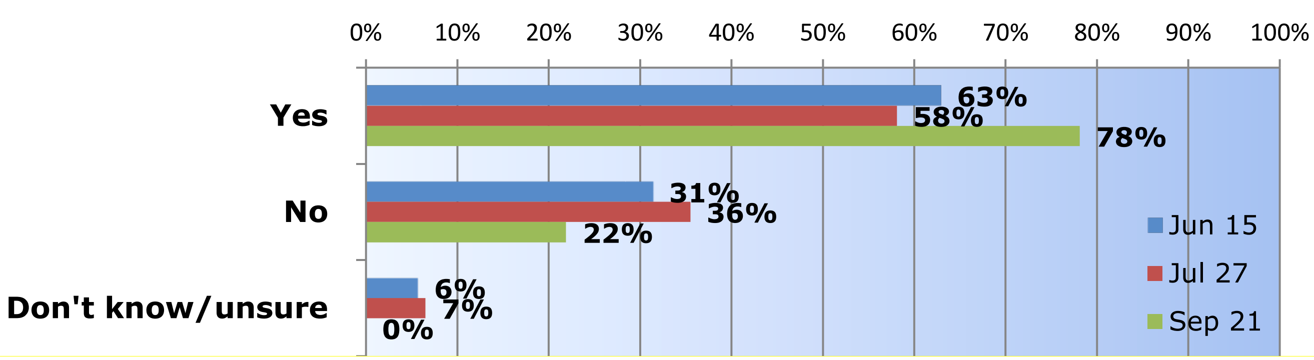
16. The recent increase in inflation is most likely:



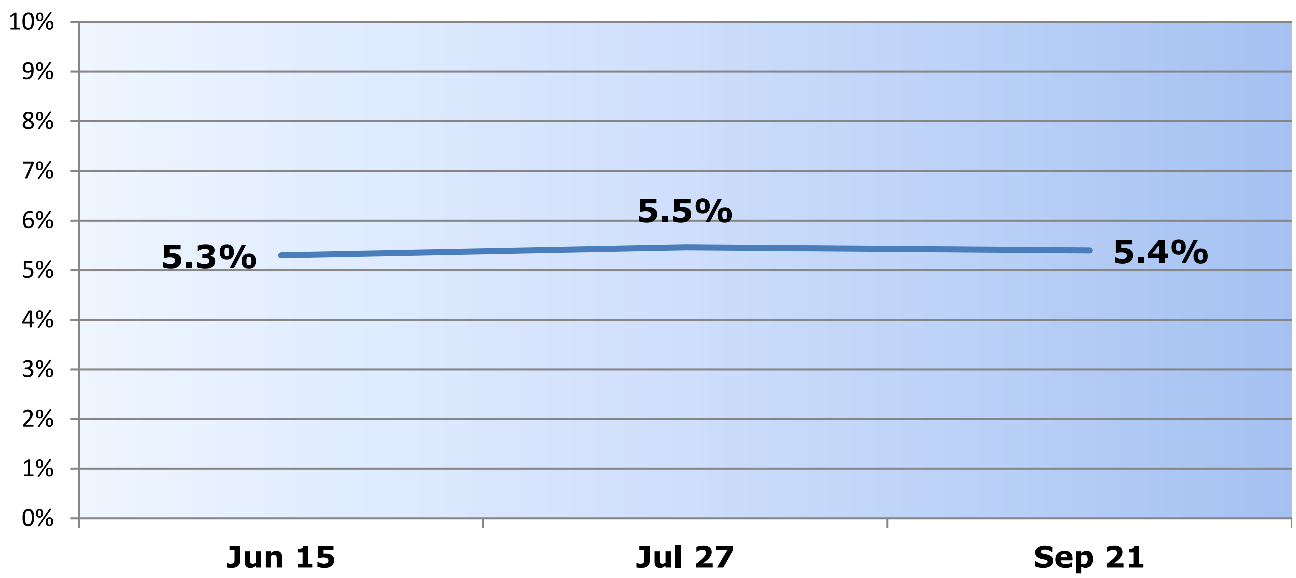
17. Is inflation a serious enough risk to the economy now that the Federal Reserve should raise interest rates now?



… should reduce asset purchases now?

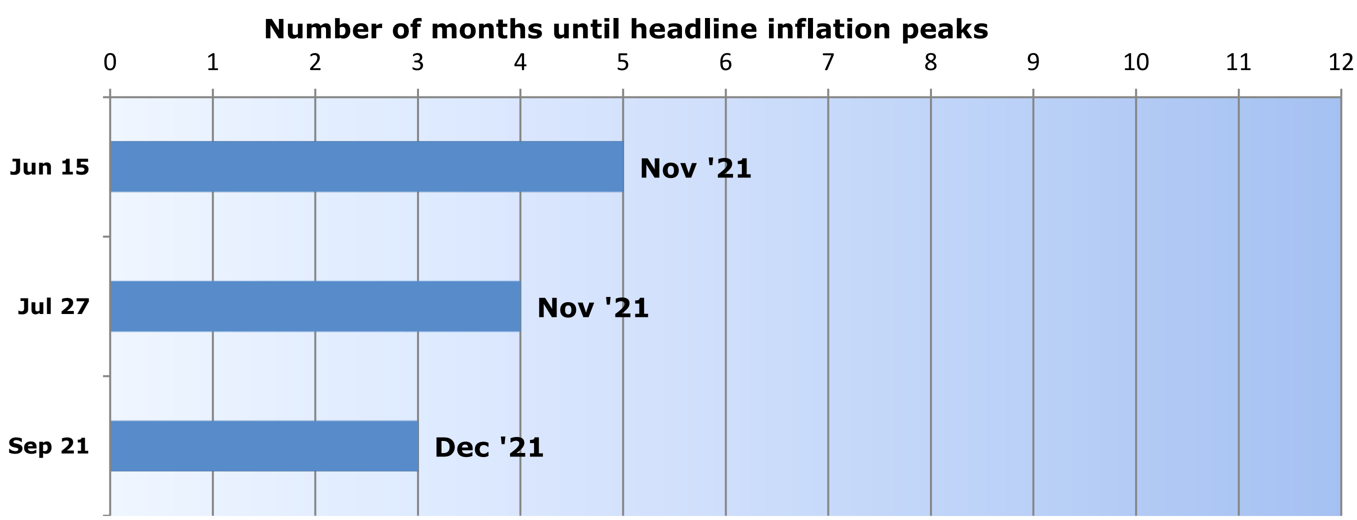


18. At what level do you expect year-over-year U.S. headline inflation to peak?

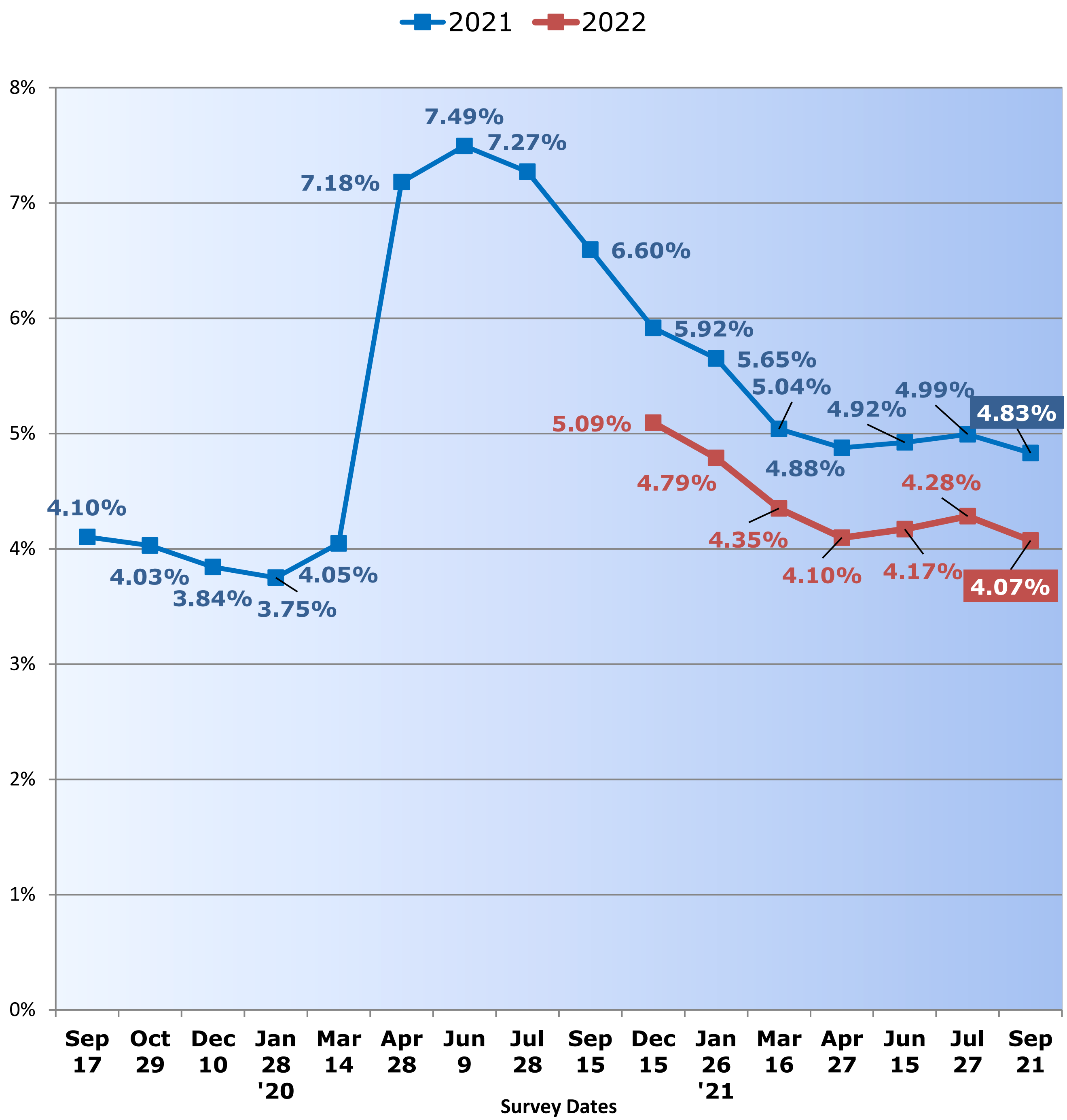


For the first time in this series, an option to select "Inflation has already peaked" was provided. It was chosen by 72% of the respondents.

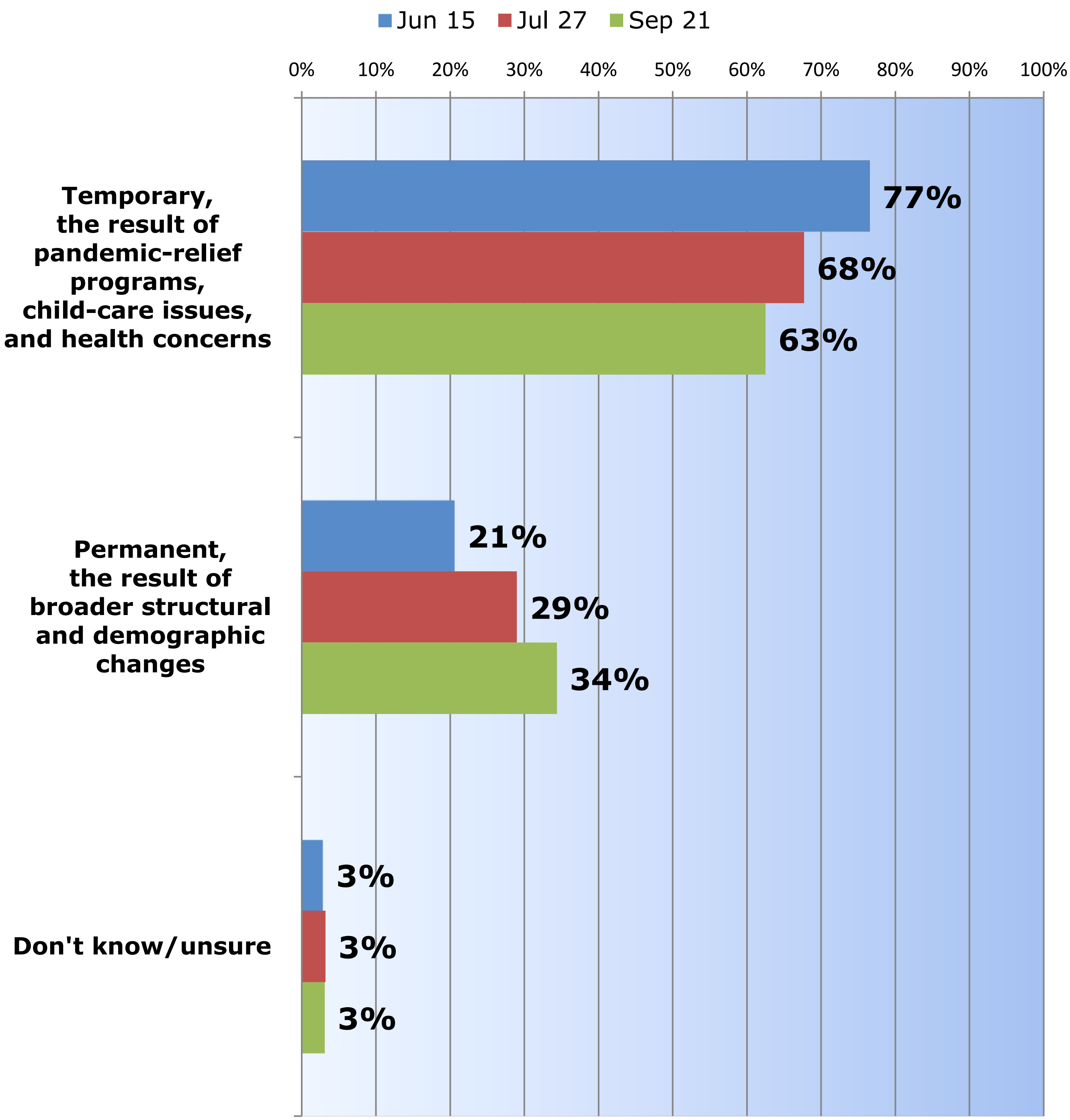
For the 28% of those who did chose a future date:



19. What do you expect the U.S. unemployment rate will be for:

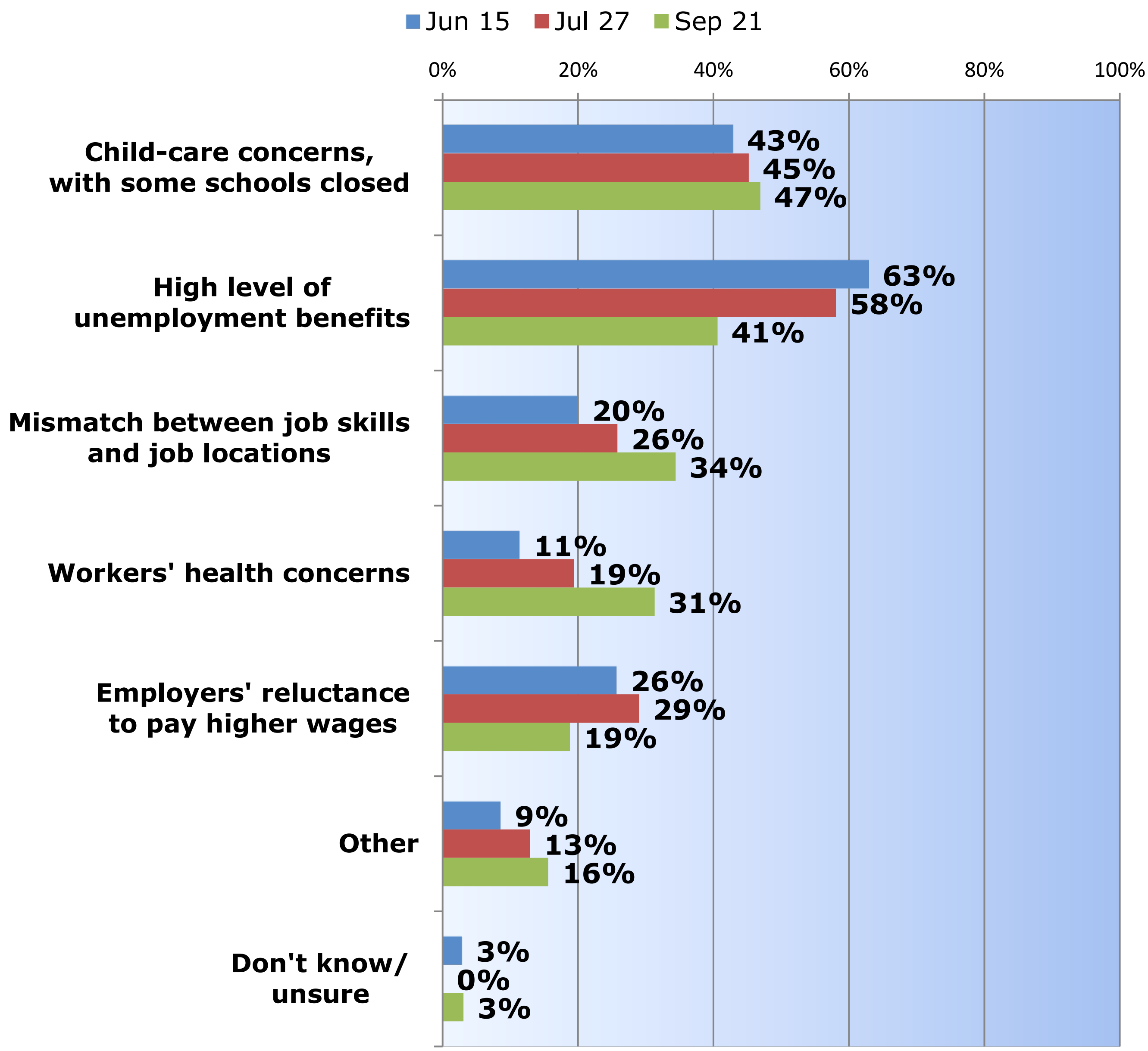


20. The recent difficulty businesses have had hiring workers is primarily:



Which of these factors is most responsible?

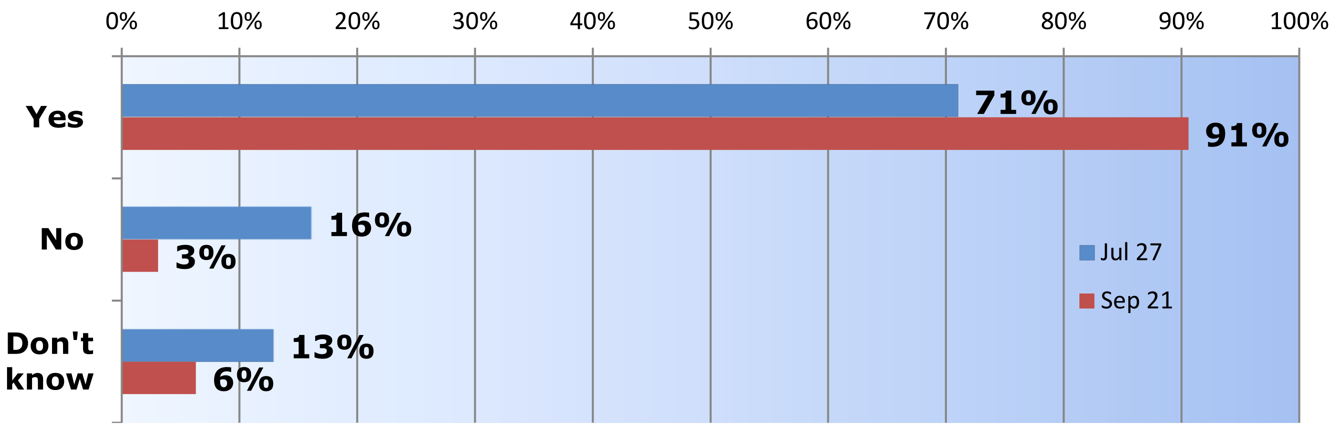
(Respondents could select up to two factors):



Other:

- Mass retirement
- Immigration and border constraints
- I wish I could select all of the above instead of just two.
- WFH dynamic may change people's attitude toward in-office employment
- Shrinkage of working age population as found in FRED database

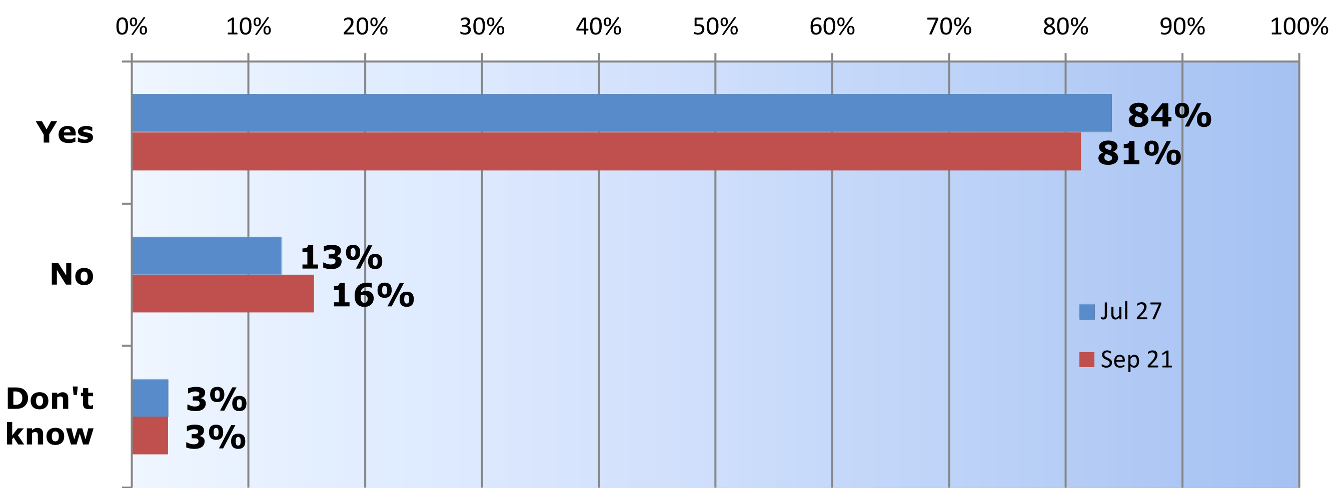
21. Will Jay Powell be renominated as Federal Reserve chair:



For those answering "no" - Who will be nominated?

- Janet Yellen if she wants the job. Lael Brainard otherwise.

22. Should Jay Powell be renominated as Federal Reserve chair?



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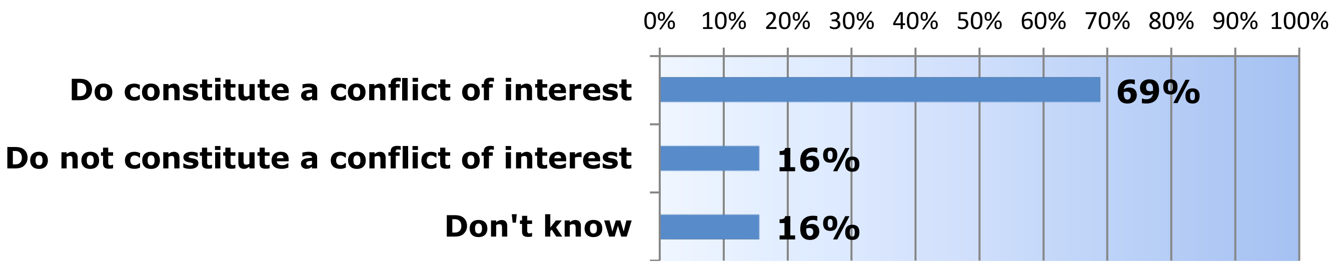

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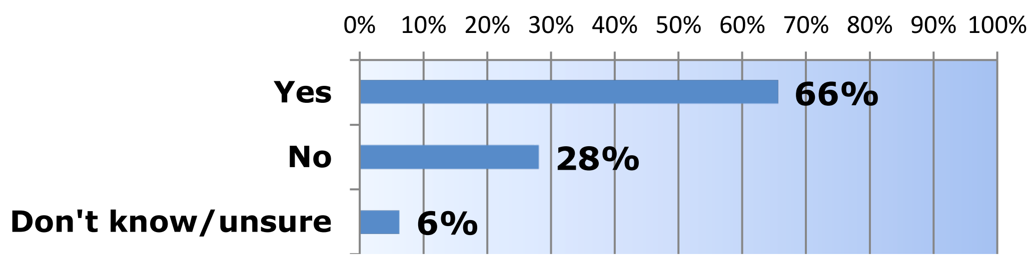

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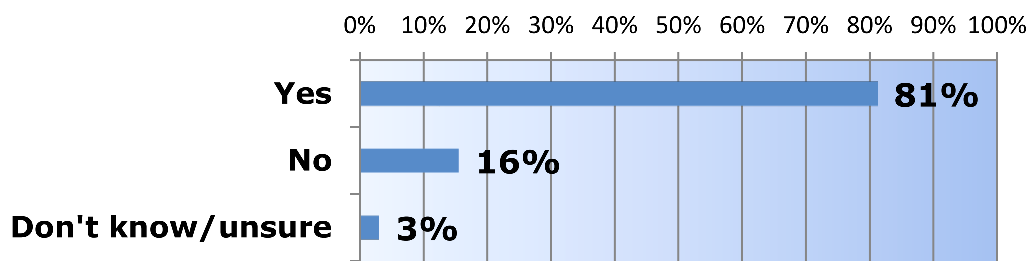

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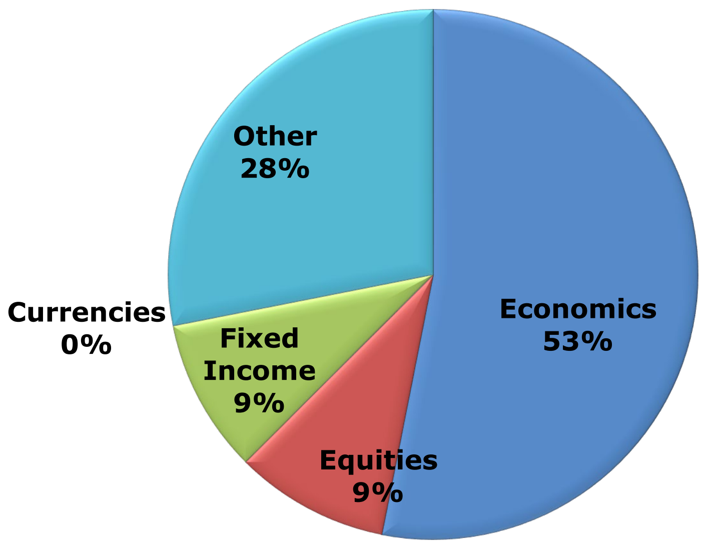

Comments

Steven Blitz, Chief US Economist, TS Lombard: Focus is on taper (plans announced at Sep meeting) but should be on AIT promise -- that the Fed runs a policy that does not put a bid under the dollar and thereby pulls the rug out from underneath investments in domestic tradeable goods and services industries. Inflation is not the problem, return of imported deflation is.

Peter Boockvar, Chief Investment Officer, Bleakley Advisory Group: The Fed's focus on employment ahead of inflation is backwards. You can't have maximum employment unless you have stable prices, which we clearly don't. Now they have another problem because there is no way I see they can avoid a market tantrum as they start on the path of tightening and yes, tapering is tightening.

Kathy Bostjancic, Chief US Financial Market Economist, Oxford Economics: We expect policymakers to announce tapering plans at their November policy meeting and to start tapering in December or January. However, the challenge for officials will be continuing to delink the timing of tapering from eventual rate liftoff amid splintering views within the FOMC as a new round of interest rate dot plot estimates will be released.

Robert Brusca, Chief Economist, Fact and Opinion Economics: This whole snit about Fed officials trading is contrived. Progressives are looking to tar and damage and replace as many Fed officials as possible. I worked at the Fed and I know that rules exist and from what I can see these people FOLLOWED THE RULES. If you don't like the rules, change them. But you do not fire the people that followed them. They also are transactions by people I hold in high regard for their ethical standards. In some cases, these people are already wealthy and would not need to nickel and dime whatever information the Fed has to trade on it. The Fed has macro data and trading stocks is micro — and idiosyncratic! I was at the NY Fed when an acting president forced the resignation of an employee for trading 'to protect the integrity of the organization' - it was a bogus dismissal. The Fed simply does not have the kind of information to facilitate 'insider trading' unless it is poised to do something extremely dramatic. No Fed official would get out and trade ahead of that. Politics is ruining the country and the Fed. The pressure from progressives is a constant burr in the saddle of policymakers. The Fed is responsible for racial justice, climate control and God knows what else. I think Congress should shut up and made fiscal policy instead of trying to strong arm the Fed to do the fiscal things it cannot pass legislation to do. The Fed is in charge of monetary policy, not climate and not racial justice, and that job is hard enough by itself. Or maybe — just maybe — the Fed should conduct open market operations in a such a way as to cure COVID??? How about that? Maybe Anthony Fauci should be the next head of the Fed?

Thomas Costerg, Senior US Economist, Pictet Wealth Management: No crutches needed anymore. The U.S. consumer is fine and will continue to do well, in my view. This is the big picture and this is what matters most now.

John Donaldson, Director of Fixed Income, Haverford Trust Co.: If there is as much as $1 trillion in liquidity that has no investment opportunity other than placing with the Fed to earn a paltry 0.05%, there is sufficient liquidity that the Fed does not need to inject an additional $120 billion each and every month.

Neil Dutta, Head of Economic Research, Renaissance Macro Research: Revisions will likely have a stagflationary feel. Growth estimates will be revised down while inflation will be revised up. There is a strong chance the median dot creeps into 2022. Powell likely disagrees with the message that will send so the press conference will be crucial.

Robert Fry, Chief Economist, Robert Fry Economics LLC: 16. The appropriate question is not whether the recent increase in inflation is permanent or temporary; unless you expect inflation to remain above 5% forever, the increase is, by definition, temporary. The appropriate question is whether inflation can be brought back down to the Fed's 2% target without a recession. I don't think it can. 25. You'd probably get better monetary policy if the only financial assets that Fed officials were allowed to own were those included in M2. (lol) The second best would be to require Fed officials to hold the same mix of stocks, bonds, and cash -- in index funds -- as the average American.

Jack Kleinhenz, Chief Economist, National Retail Federation: While the Fed is facing a carousel of third quarter macroeconomic factors that are slowing growth — including tapering off of government stimulus, elevated COVID-19 infections, ongoing supply chain challenges in the form of shortages of labor and goods, and inflation, the Fed is keeping a close eye on the pace of employment. Payrolls are heading in the right direction and I expect the Fed to begin to taper later this year.

Barry C. Knapp, Managing Partner Director of Research, Ironsides Macroeconomics LLC: If the FOMC passes on tapering this week they will have to significantly shorten the process and will miss a window when issuance has slowed, real rates and fixed income implied volatility are low. Additionally, while reopening-related inflation appears to have peaked, supply chain-related inflation persists, the deadweight sectors (health care, housing and education) are negatively contributing but are likely to reverse and Powell's inflation process (faster wage growth driving expectations higher) is underway. Failing to start slowing asset purchases this week would be a policy mistake.

Subodh Kumar, President, Subodh Kumar & Associates: Obfuscation by central banks appears to be increasing, which risks confusion. The BIS considers near-term pressures, the evolution of quantitative ease and the need to focus upon deficits as fiscal programs rise sharply. About massive quantitative ease, the information content emerging from Jackson Hole has been slipping. Close scrutiny awaits the IMF annual of October 11, 2021 and its accompanying releases. Central banks, like the BoC, the RBA and RBNz, have signaled exit from unfettered quantitative ease. Alongside shifting goal posts, the Federal Reserve has mixed commentaries about the tapering of asset purchases and rate increases. The ECB has both denied tapering and raised the potential for reducing pandemic-oriented asset purchases. Slicing and dicing from subprime mortgages to collateralized loan obligations to likely collateralized debt obligations (some supercharged with leverage) has led to risk being shifted into obscure corners, which then requires government rescue - hardly a free capital market facet. Capital markets are unlikely to be able to ignore geopolitical and political economy issues. For millennia, the maritime and land routes around the Indian Ocean have been crucial. The Indo-Pacific cannot be neatly allocated boxes. The concomitant and now new AUKUS maritime and defense alliances will likely have counter moves. The same holds for Europe with a new German leader amid a more aggressive Russia. Also, loom real delivery on climate investment ahead of November 2021 Glasgow COP26. Other challenges include trade and tariffs, such as between China and the United States. Potential risks seem to be flaring in finances, even in changes that otherwise seem minute. The rising percentile of deficits seems likely to be unstable. Public examples and households have demonstrated that spending on borrowings has to be paid for - or worse follows. Notwithstanding currency market stability and momentum favor for now junk bonds, risks seem elevated. Cash and precious metals as well as shorter duration in fixed income are called for. In business, purveyors of luxury like haute couture and accessories seem to be returning to controlling availability to protect premium pricing now, interestingly, including in automobiles. Again, as during earlier cost stress periods, for more prosaic items appear considerations of maintaining the size of packaging and unit pricing while also reducing the mass of the contents. Higher expenses and logistics challenges may not be globally transitory. Operations are likely to not deliver the consensus of sustained 12% per annum S&P 500 earnings growth. Valuation and momentum likely has further evolution in favor of quality and diversification. We favor industrial over consumer cyclicals, balance Healthcare and Information technology in growth and see the Financials as crucial.

Guy LeBas, Chief Fixed Income Strategist, Janney Montgomery Scott: The pace of tapering bond buys has become the more important variable than the onset of tapering. If, for example, the Fed elects to taper at a $5bln in the first month, the markets will assume it will then take 24 months to get to zero net bond buys, and therefore at least 24 months before a first rate hike can happen -- which is later than the markets are currently pricing. So, a taper of less than $10bln is actually *more* stimuluative for the markets and economy, a taper of about $10bln is neutral, and a taper of more than $10bln is defacto policy tightening as compared to what's currently priced.

John Lonski, President, Thru the Cycle: Don't fear the taper. The taper is distinct from quantitative tightening (QT), or when the Fed becomes a net seller of bonds. Financial markets and the economy held up fairly well during the previous taper. However, when the Fed cut its holdings of Treasury bonds from Q2-16's then record-high of $2.8 trillion to Q2-19's $2.3 trillion, the 10-year Treasury yield jumped up from July 2016's 1.5% to October 2018's 3.15%. A drop in interest-sensitive home sales helped to end QT.

Rob Morgan, Senior Vice President and Market Strategist, MOSAIC: The Fed may have been on track to announce its taper strategy as this meeting, but after employers added only 235,000 jobs in August that pushed the announcement back by at least a month.

Chad Morganlander, Portfolio Manager, Stifel Nicolaus (Washington Crossing Advisors): Risk in the financial system is misunderstood. Today, asset inflation and historically tight credit spreads should be a clear warning sign to the Federal Reserve. We believe investors should own quality assets and reduce leverage.

Joel L. Naroff, President, Naroff Economics LLC: The Fed is not looking three months into the future when considering when to taper and raise rates. It is, or should be, concerned about where the long-term rate settles down to. If inflation expectations show further signs of becoming unmoored, it could move to taper and especially raise rates sooner than the markets expect.

Jim Paulsen, Chief Investment Strategist, The Leuthold Group: I think the Fed should reassure investors and economists by emphasizing that both the growth in QE and the M2 money supply have "tapered" significantly since the end of Feb. For example, the annual growth in QE has already declined from about 80% in Feb. to under 20% currently. The fact that tapering has already been occurring for months could help calm inflation fears and anchor inflation expectations, which is a stated goal of the Fed.

Lynn Reaser, Chief Economist, Point Loma Nazarene University: Inflation risks could be mounting as competition for workers may empower wage demands. Yet, the Fed will want more data to assess Delta's toll. Policymakers are navigating a narrow channel.

John Ryding, Chief Economic Advisor, Brean Capital, LLC: The Federal Reserve needs to more clearly explain the rationale as to how asset purchases are helping the Fed achieve its dual mandate. It also needs to provide more specificity as to how inflation targeting is working (e.g. the period over which the Fed seeks to average inflation at 2%). The 5-year average inflation rate is above 2% and the one-year rate is above 4%. Inflation expectations of the public have surged for the year ahead (in the NY Fed survey, the Conference Board and University of Michigan) and yet Chair Powell and others are playing down the rise. Meanwhile there are 1.3 unfilled jobs per unemployed worker. The Fed's easing risks cementing in an inflation rate above 2% that would be costly to reverse while providing no benefit to job creation (the jobs are already there but not being filled for labor supply reasons). However, a majority on the FOMC appear willing to continue easing at the pace of $120 billion per month for an additional two months because the willingness of potential workers to fill open positions was not as high in August as was expected. The Fed is falling further behind and could be making a major policy error at this point in time.

Richard I Sichel, Senior Investment Strategist, The Philadelphia Trust Company: Now that those extra government checks are going away and corporations are voluntarily increasing wages, shortages and delays should be alleviated. We do need to be wary of inflation though, which may be more than transitory. We can hope for a real infrastructure deal unencumbered by politics. Let's hope that tax increases are less onerous than originally planned. The Fed should finally begin to taper. When the variant subsides we can all breathe easier and get closer to normal, which will keep the stock market attractive.

Allen Sinai, Chief Global Economist/Strategist, Decision Economics, Inc. (DE): The U.S. economy is on solid footing with inflation permanently higher.

Hank Smith, Head of Investment Strategy, Haverford Trust Company: If in fact the Delta variant has peaked and added federal unemployment benefits have expired, the economy should re-accelerate into year-end. Higher taxes and increased regulations are the biggest headwinds going into 2022.

Richard D. Steinberg, CFA, Chief Market Strategist, The Colony Group: Investors will have a keen eye on the Federal Reserve's messaging for weaning ourselves off of the massive bond purchasing program. Pace matters. With a slow and steady message, equities markets may take it in stride and long bond yields will still remain uncompetitive for risk assets.

Diane Swonk, Chief Economist, Grant Thornton: Powell's toughest job may be explaining the dot plots, which add more confusion than clarity to Fed decision making. He needs to pivot the discussion on tapering from employment thresholds to financial stability thresholds, which the Fed has achieved.