Is the Fed being too honest?

In August 2020, the Fed amended its policy with respect to inflation, moving from an inflation target of 2% to an inflation target of 2% over time. In doing so, the understanding was that they would let inflation 'run hot' in order to achieve their goals for employment and inflation. Fast forward to today, with inflation fears growing and pushing up the longer end of the Treasury curve, and the Fed may have run itself into an honesty problem.

So far in 2021, the 10 year Treasury yield has risen about 75 basis points as the Fed has insisted that inflation is 'transitory' and that they intend to maintain the Funds rate at current levels through 2023. However, in providing this level of transparency to investors, have they created the exact issue they wish to avoid? Their words are as important as their actions, and their words now indicate (either willingly or unwillingly) that they are unconcerned with inflation, and in doing so, have triggered a sell-off at the longer end of the curve that normally would have been caused by actual inflation (which we have yet to see in the published inflation metrics). If the Fed seemed more concerned about inflation, and not so steadfast on keeping rate low for multiple years, the market would likely feel less nervous, with longer yields likely trending lower as a result. The recent rapid rise in the longer end of the curve may be nothing more than the Fed being too honest for their own good.

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