US stock futures rally as traders take Powell's 'Time to retire the word Transitory' remark in their stride

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US stock index futures are showing strength and were trading higher after the recent comments by Federal Reserve Chair Jerome Powell on inflation and the potential economic impact from the omicron virus strain. The DJIA Futures, Nasdaq Composite Futures and the S&P 500 Futures were trading up by nearly 0.91 per cent, 1.19 per cent and 1.33 per cent, respectively.

Yesterday, even while the leading indices fell, the Apple share showed resilience and closed by almost 3.1 per cent.

Two key developments were part of Powell's statement to US Congress – One, the policymakers will discuss whether to wrap up the tapering programme a few months earlier and secondly, the pace of impending interest-rate hikes.

The US Fed's act of reducing its money printing and buying fewer bonds is referred to as tapering.

Interestingly, Powell who was sticking to the point that the pandemic surge in inflation was largely due to transitory forces had to finally say that it's probably a good time to retire the word 'transitory inflation'. According to Madhavi Arora, Lead Economist, Emkay Global Financial Services, "Powell indicates early wrapping up the QE taper which is to be discussed in December meeting and also mentions that its " Time to retire the word Transitory".

"Markets are currently pricing in at least two quarter-percentage-point hikes in 2022 and a mild possibility of a third by Dec, while the Sept Fed projections pointed to a less aggressive hikes. Those projections also will be updated in December."

According to Brickwork Ratings, " If the Fed continues with the pace of tapering as announced, it is expected to stop its bond buying programme by mid-2022. This means the Fed may opt for a reduction in the size of its balance sheet and gradually remove the monetary stimulus in the later part of 2022. Moreover, the possibility of a hike in the federal funds rate in 2022 is strengthened, which was brought down to near zero levels (0-0.25%), from 1.5-1.75% since 15 March 2020.

The economic impact of the Omicron variant is still unknown and the stock market may continue to witness volatility in the weeks ahead. As an investor, any corrections or dips in the prices of quality stocks may be used as an opportunity to build a portfolio for the long term.