The minutes of the Federal Open Markets Committee, the Federal Reserve's policy-making body, are often of interest for specific insights and technical details.

But reading between the lines of the report released today from its Oct. 28-29 meeting, a broader picture also emerges of the historically unusual co-dependency that has deepened between the Fed and the financial markets. The resolution of this relationship will be consequential and is as yet uncertain.

Here are the four major takeaways from the FOMC minutes that speak to the latest phase of this intense co-dependency:

- While Fed officials are concerned about downside risks emanating from economic weakness abroad -- the minutes cite Europe, China and Japan, in particular -- they come across as relatively comfortable with the U.S. growth and employment outlook. Specifically, they forecast “real economic activity would increase at a pace sufficient to lead to further declines in the unemployment rate.”
- In commenting on the risks to growth, they single out the threat from future financial instability. But these concerns come across as very mild, consistent with the speed with which markets bounced back from the intense dislocations and instability in the U.S. bond markets just two weeks before their late October meeting.
- The risk that inflation will go too low seems more of a concern to the Fed than inadequate growth, insufficient job creation and financial instability. As such, most central bankers argue that “the Committee should remain attentive to evidence of a possible downward shift in longer-term inflationary expectations.”
- Communication remains a challenge judging from the discussion officials had on what to do with specific phrases that markets tend to obsess with. Clearly, they want to avoid a "taper
tantrum” like the one last year, when major market sell-offs and liquidity disruptions followed then Chairman Ben Bernanke’s signal that the Fed's asset purchases might taper off sooner than investors expected.

Together, these four takeaways suggest the Fed will continue its heavy use of asset markets as the channel for pursuing its macroeconomic objectives. More generally, with other U.S. economic policies essentially sidelined by political polarization in Washington, this partial and experimental approach will remain the only policy game in town.

For their part, markets really like having the Fed serve in the role as a best friend for asset prices. Absent a global economic or geopolitical shock or a domestic political one, this will continue to give confidence to traders to take on greater risks that are even more decoupled from the underlying fundamentals of the economy and from less artificially priced markets such as commodities.

For now, the intense and quite exclusive co-dependency between the Fed and markets will continue. The more important yet difficult call is what it will lead to down the road. Will it end up promoting sustained growth, price stability and financial soundness? Or will it collapse in a breakup that threatens all three as a result of a policy mistake or a market accident or both?

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