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Optimism for the new year

Nearly two years since the onset of the pandemic, it looks like uncertainty will remain in 2022. The rise of the omicron shows that variants can swiftly change the picture. But we have learned how to manage our response to Covid and the economy should continue its recovery. The labor market keeps improving and loosening of supply chain bottlenecks should help to lessen inflation. There's plenty of reason for optimism.

The Federal Reserve is another reason why we are enthusiastic. Policymakers have learned a lesson themselves that just because you think prices will fall in the long term doesn't mean the present should be discounted. Their shift to remove accommodation to battle inflation will be a major story this year. The Fed is on track to end its monthly purchases of Treasuries and agency asset-backed securities in March and has projected it will hike rates for the first time since the pandemic began not long after. This is water that should lift all boats, especially those in the broad money markets. We view this more as normalization of monetary policy than true tightening, but it is welcome no matter the name. All in all, we think 2022 will be a strong year in the liquidity space.