Weekly Commentary

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Quiet before the storm

The Federal Reserve entered its "quiet period" last week, after many days of speeches mostly focused on setting market expectations for the rest of the rate hike cycle. The central bank always shutters it doors and mutes its leaders ahead of Federal Open Market Committee (FOMC) meetings. Discussions go private this Monday and Tuesday before exploding in public on Wednesday, when the FOMC statement is released.

Because those speeches have successfully communicated that a 50 basis-point hike is likely, investors will pay more attention to the Fed's plan to shrink its balance sheet. The Fed also has telegraphed this. The minutes of the last FOMC meeting indicated policymakers recommended reducing it at a monthly pace of $95 billion. That would be accomplished by allowing $60 billion in Treasuries and $35 billion in agency mortgage-backed securities to mature. The Fed would not reinvest the proceeds into these markets. If this plan is approved this week, it would be much higher than the monthly amount policymakers decreased the balance sheet in the last hiking cycle (2017-19). That makes sense, as inflation was not a problem at the time. These days, the call to trim stimulus is much louder and urgent.

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