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Weekly Commentary

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'Expeditiously' is the new 'transitory'

Released last week, the minutes of the March 15-16 Federal Open Market Committee (FOMC) were more revealing than expected. With the first step in removing monetary accommodation complete (ending monthly asset purchases) and a new rate-hike cycle begun, it was good to see a plan for reducing the Federal Reserve's massive balance sheet is nearly complete.

The Fed might begin to lower the amount of securities it holds at the May FOMC meeting. The monthly amount likely would be $95 billion: $60 billion in Treasuries and $35 billion in agency mortgage-backed securities (MBS). It would accomplish this by letting the bonds "roll off" instead of selling them outright. This means that when a bond matures, the Fed would no longer reinvest the proceeds to buy new bonds. It is the least disruptive way to increase the supply of Treasuries and MBS in the market.

The minutes also said Fed officials want to raise the fed funds target range "expeditiously." That's a far cry from a year ago when Chair Powell and others used the term "transitory" to describe rising inflation. Now at multi-decade highs, the Fed is on high alert, set to do whatever is needed to curb soaring prices.

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