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Weekly Commentary

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Hikes on the horizon

Federal Reserve officials finally dropped their cool-as-a-cucumber response to inflation readings when they voted last week to further reduce the monthly amount of asset purchases they make on the open market. The action means the Fed's participation in the Treasury and agency mortgage-backed securities markets could end in March 2022. When or how they unwind the massive balance sheet is a topic for another day, but the federal funds projections released after the Federal Open Market Committee meeting indicate we might see three rate hikes next year. That potentially would put the first one in the second quarter, presuming they are all quarter-percentage-point increases. Cash managers and investors in liquidity instruments should relish this early holiday present.

But while policymakers raised their projection of inflation levels in 2022 and Chair Powell pointed to solid growth in employment, wages and rent, don't overlook the FOMC statement. It still included the long-standing sentence: "Supply and demand imbalances related to the pandemic and the reopening of the economy have continued to contribute to elevated levels of inflation." That means that officials are hanging on to their belief the spike won't last. They were right to acknowledge inflation with real action because it should slow market expectations. But they might not have changed their tune as much as reports suggest.

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Views are as December 20, 2021 and are subject to change based on market conditions and other factors.