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Powell – Rate Hikes will be the Primary Policy Path

- “The process of removing policy accommodation in current circumstances will involve both increases in the target range of the federal funds rate and reduction in the size of the Federal Reserve’s balance sheet. As the FOMC noted in January, the federal funds rate is our primary means of adjusting the stance of monetary policy. Reducing our balance sheet will commence after the process of raising interest rates has begun and will proceed in a predictable manner primarily through adjustments to reinvestments.”

Source: Fed Board, Powell Statement to the US House of Representatives, 3/2/22

Lorie Logan – Shrinking the Balance Sheet, a Novel Idea

- “In summary, Treasury principal payments in coming years will be much larger and more variable than they were following the LSAP programs. MBS principal payments will likely be modestly larger and are subject to considerable uncertainty. The FOMC has not decided on its plans for reducing the size of the balance sheet. However, the minutes from the December FOMC meeting noted that many Committee participants judged that monthly caps on redemption amounts could help ensure that the pace of reduction in the SOMA portfolio would be predictable over time.”
- “And while the Fed has some experience shrinking its balance sheet, this process is still relatively novel.”

Source: NY Fed, Lorie Logan (EVP, Markets Group, responsible for execution of monetary policy at the direction of the FOMC) speech, Federal Reserve Asset Purchases: The Pandemic Response and Considerations Ahead, 3/2/22

Balance Sheet – Previous Comments from Fed Officials

- **Waller:** “Based on past experience, an effective way to gradually reduce the balance sheet to a more efficient level is to change that reinvestment policy to limit, or cease, reinvestment. Allowing this “runoff” was the main way the FOMC shrank the balance sheet before the pandemic.”
- **Bullard:** “Asset purchases will come to an end in the months ahead, but the FOMC could also elect to allow passive balance sheet runoff in order to reduce monetary accommodation at an appropriate pace.”

Source: Fed Board, Waller speech, Economic Outlook, 11/19/21

Source: St Louis Fed, Bullard speech, The Initial Response to the Inflation Shock of 2021, 1/6/22

- **Bowman:** “In the coming months, we need to take the next step, which is to begin reducing the Fed’s balance sheet by ceasing the reinvestment of maturing securities already held in the portfolio. Returning the balance sheet to an appropriate and manageable level will be an important additional step toward addressing high inflation.”

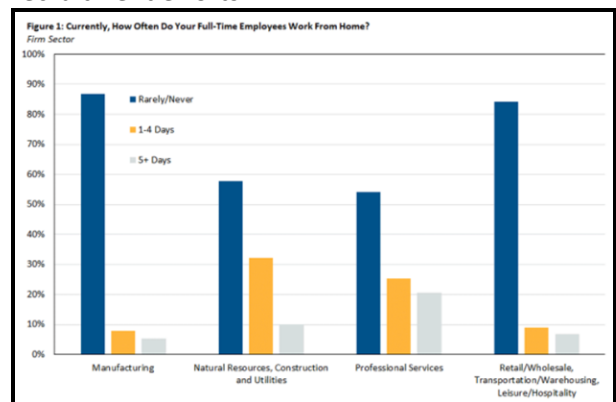
Source: Fed Board, Bowman speech, High Inflation and the Outlook for Monetary Policy, 2/21/22

Balance Sheet – Facts

- Total balance sheet as of 3/2/22 is \$8.9 trillion.
- Net purchases of Treasury securities and agency MBS will come to an end this week.
- \$4TN (or 45%) of the balance sheet investments have a maturity of less than 3-years.
 - If maturing funds are not reinvested, the balance sheet will be reduced by \$111BN a month (on average) over 36-months.

Remote Work – A New Way to Recruit/Retain Workers

- “In summary, the dust has yet to settle with respect to remote work. Our data say that some employers expect to cut back on fully remote workers, while others expect to move in the opposite direction. Many employers now offer hybrid and remote work options as part of their recruitment and retention strategies. As we also show, remote work options go hand in hand with greater geographic reach in recruitment efforts.”



Source: Richmond Fed, Are Firms Using Remote Work to Recruit and Retain Workers? 2/23/22

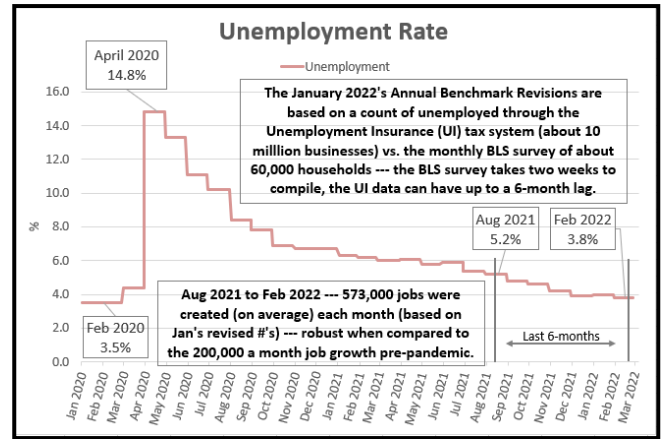
Quote of the Week:
*“Education is not preparation for life.
 education is life itself.”*
 --- John Dewey (American philosopher)

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Economic Indicators:

- Unemployment: 3.8% Feb (CBO's Natural Rate: 4.2%)
 - 678,000 jobs were created in Feb, nearly double the median consensus (350,000) lowering the unemployment rate from 4.0% to 3.8%.
 - Mar's unemployment #'s to be released 4/1/22.
- Core PCE: 5.2% Jan (Avg. Inflation Target: 2.0%)
 - Dallas Fed's Trimmed Mean for Jan: 3.53%,
 - Trims off the lower & upper data spikes.
 - St Lou Fed 5yr Breakeven Inflation Rate: 3.29%
 - Yield on Treasury minus yield on TIPS.
 - February's Core PCE will be released 3/31/22.
- GDP: 7.0% Q4 (2nd Est.) (SF Fed Long Trend: 1.70%)
 - 4Q GDP (3rd Estimate) will be released 3/30/22.

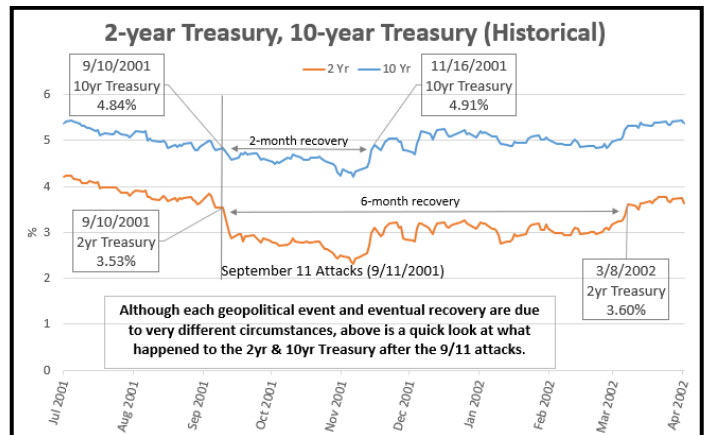
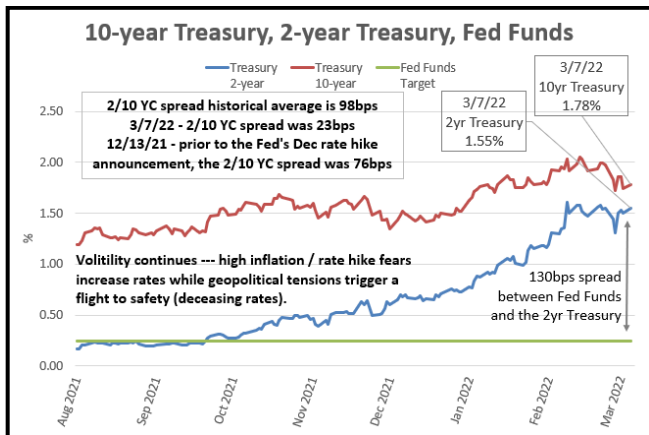


Rates --- 10-Day Trends

| Borrowing Rates - Tax Exempt | 2/22/22 | 2/23/22 | 2/24/22 | 2/25/22 | 2/28/22 | 3/1/22 | 3/2/22 | 3/3/22 | 3/4/22 | 3/7/22 | 10-Day Average | 10-Day Avg vs 3/7/22 | 10-Day Change |
|---|---------|---------|---------|---------|---------|--------|--------|--------|--------|--------|----------------|----------------------|---------------|
| 2-Year Line of Credit (Fixed Rate Line of Credit) | 2.80 | 2.84 | 2.75 | 2.84 | 2.78 | 2.61 | 2.62 | 2.73 | 2.71 | 2.73 | 2.74 | ↓ (0.02) | (0.08) |
| 10-year Term Loan | 3.29 | 3.28 | 3.23 | 3.33 | 3.27 | 3.14 | 3.14 | 3.22 | 3.17 | 3.17 | 3.22 | ↓ (0.06) | (0.12) |
| 15-year Term Loan | 3.59 | 3.61 | 3.53 | 3.63 | 3.57 | 3.45 | 3.45 | 3.54 | 3.48 | 3.47 | 3.53 | ↓ (0.06) | (0.12) |

| Key Interest Rates | 2/22/22 | 2/23/22 | 2/24/22 | 2/25/22 | 2/28/22 | 3/1/22 | 3/2/22 | 3/3/22 | 3/4/22 | 3/7/22 | 10-Day Average | 10-Day Avg vs 3/7/22 | 10-Day Change |
|---|---------|---------|---------|---------|---------|--------|--------|--------|--------|--------|----------------|----------------------|---------------|
| Federal Funds (Target Range - Upper Limit) | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.00 | 0.00 |
| Interest on Reserve Balances (IORB) (Formerly IOER - name changed July 2021) | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.00 | 0.00 |
| BSBY - Overnight | 0.072 | 0.075 | 0.076 | 0.076 | 0.085 | 0.076 | 0.084 | 0.080 | 0.073 | 0.075 | 0.077 | ↓ (0.002) | ↑ 0.003 |
| BSBY - 1-month | 0.108 | 0.110 | 0.121 | 0.131 | 0.144 | 0.159 | 0.180 | 0.195 | 0.212 | 0.209 | 0.157 | ↑ 0.052 | ↑ 0.101 |
| SOFYR - Overnight | 0.050 | 0.050 | 0.050 | 0.050 | 0.050 | 0.050 | 0.050 | 0.050 | 0.050 | 0.000 | 0.050 | 0.000 | 0.000 |
| SOFYR - 30-Day Average | 0.049 | 0.049 | 0.049 | 0.049 | 0.050 | 0.050 | 0.050 | 0.050 | 0.050 | 0.050 | 0.049 | 0.000 | ↑ 0.001 |
| SOFYR - Term Rate - 1-Month (CME Term SOFR) | 0.140 | 0.154 | 0.190 | 0.195 | 0.223 | 0.221 | 0.218 | 0.244 | 0.244 | 0.244 | 0.207 | ↑ 0.037 | ↑ 0.104 |
| US Treasury - 2-Year | 1.56 | 1.58 | 1.54 | 1.55 | 1.44 | 1.31 | 1.50 | 1.53 | 1.50 | 1.55 | 1.51 | ↑ 0.04 | ↓ (0.01) |
| US Treasury - 10-Year | 1.94 | 1.99 | 1.99 | 1.97 | 1.83 | 1.72 | 1.86 | 1.86 | 1.74 | 1.78 | 1.87 | ↓ (0.09) | ↓ (0.16) |
| US Treasury - 20-Year | 2.31 | 2.36 | 2.36 | 2.37 | 2.25 | 2.19 | 2.32 | 2.32 | 2.23 | 2.29 | 2.30 | ↓ (0.01) | ↓ (0.02) |
| 2-Year / 10-year Treasury Yield Curve Spread (10-year Treasury minus 2-year Treasury) | 0.38 | 0.41 | 0.45 | 0.42 | 0.39 | 0.41 | 0.36 | 0.33 | 0.24 | 0.23 | 0.36 | ↓ (0.13) | ↓ (0.15) |

Rates – The 2/10 Yield Curve Spread Shrinks Further and a Historical Perspective



Interesting reads that didn't make the Report:

- Federal Board of Governors, Monetary Policy Report, 2/25/22
- CBO Cost Estimate, H.R. 4616, Adjustable Interest Rate (LIBOR) Act of 2021, 3/3/22

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