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What Does Fed's Recent Indication on Rate Hikes Mean for Fixed Income Markets?

During the recently held Federal Open Market Committee (FOMC) meeting on December 15, the Federal Reserve Chair provided multiple indications toward taking some aggressive actions to address the historic high inflation in the United States that included reducing the Fed's bond purchases and the possibility of three interest rate hikes in 2022.

These actions come at a time when the prices of goods and services are rising at historic rates, primarily due to the relatively relaxed monetary policy, to combat the effects of the COVID-19 pandemic, along with supply chain imbalances, which have contributed to the elevated levels of inflation. In the recent FOMC meeting, the committee increased its inflation outlook for 2021 from 4.2% to 5.3% for all items. In addition to tapering its bond purchase program, the Fed chairman also indicated increasing the interest rate three times in 2022, which will be an aggressive yet warranted move to address economic forces.

In this article, we will take a closer look at the recent indications from the FOMC and how these decisions will likely impact the capital markets and, more importantly, fixed income portfolios.

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