Fed Holds, but Markets Rally on QT Reduction

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As expected, the Federal Open Market Committee (FOMC) voted 11-1 this afternoon to maintain the overnight funds target at 4.25%- 4.50% for the second straight meeting, while sharply reducing its monthly balance sheet runoff (quantitative tightening). The one-page official statement, usually an afterthought, was uncharacteristically insightful. The committee deleted a sentence from the January statement saying risks to employment and inflation goals were balanced and added that "uncertainty around the economic outlook had increased." Also in the statement was an announcement that the amount of Treasury securities allowed to mature will drop from $25bn to $5bn per month beginning in April. Agency and mortgage-backed security runoff will remain at $35bn per month.

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