

Jittery Markets Focus Squarely on the Fed

The holiday-shortened week brought an abbreviated slate of economic releases, *none of which made much of an impact on the financial markets*. Instead, the markets are focused on next week's FOMC meeting, where committee members are expected to tee-up the first quarter point rate hike for mid-March. However, it's not the widely-expected announcement of the initial 25 bp rate hike that's unnerved the financial markets, but rather an expanding range of policy possibilities that now include a faster tapering plan, as much as 100 or 125 bps of total tightening in 2022, a larger 50 bp hike if inflation doesn't settle down, and the start of balance sheet reduction later this year. All of these scenarios, which would have seemed farfetched six weeks ago, will likely be discussed at next week's meeting.

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