

Fed Officials to Discuss Balance Sheet Reduction and Interest Rate Outlook

Fed officials, in the midst of their March FOMC meeting, will emerge Wednesday afternoon with fresh economic projections and an updated interest rate outlook. Although there's virtually no chance the overnight funds target will be adjusted at this meeting, the longer end of the yield curve could benefit if committee members decide to reduce the pace of balance sheet runoff.

As it stands, the Fed has been allowing \$95 billion in portfolio securities to simply mature. Over the past two years they've reduced their balance sheet from a bloated \$8.5 trillion to around \$7 trillion. If the FOMC decides to whittle down the monthly runoff amount, the bond market would have less supply to absorb, which in theory should put downward pressure on yields.

The first summary of economic projections since the December meeting is expected to show higher inflation (*at least in the near term*) and slightly stronger economic growth. The previous "dot plot" had suggested rate cuts totaling 75 basis points in 2024. The new dot plot is likely to indicate the same, or fewer. Chairman Powell's task at the post meeting press conference will be to acknowledge the recent rise in price pressures while reminding market participants that bumps were expected along the way, and assuring investors that the Fed's +2.0% inflation goal will ultimately be reached.

Bond yields rose sharply in February in response to warmer January inflation reports and climbed again in March when it appeared January wasn't as much of an outlier as analysts had suspected. If Powell doesn't strike a neutral tone Wednesday afternoon, further market selloff wouldn't be a surprise. The impetus for a rally would likely be a slowing of the balance sheet runoff.

Market Indications as of 1:56 P.M. Central Time

DOW	Up 236 to 39,027 (HIGH: 39,132)
NASDAQ	Up 43 to 16,146 (HIGH: 16,275)
S&P 500	Up 24 to 5,123 (HIGH: 5,175)
1-Yr T-bill	current yield 5.09%; opening yield 5.06%
2-Yr T-note	current yield 4.69%; opening yield 4.73%
3-Yr T-note	current yield 4.47%; opening yield 4.52%
5-Yr T-note	current yield 4.30%; opening yield 4.35%
10-Yr T-note	current yield 4.30%; opening yield 4.32%
30-Yr T-bond	current yield 4.44%; opening yield 4.45%

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