Weekly Commentary

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Short credit and government interest rates were little changed last week—a light week on the economic news front—as the market focused on this week's meeting of Federal Reserve policymakers.

Recent statements from Fed authorities, combined with strengthening economic data, have fueled speculation the Federal Open Market Committee (FOMC) could initiate a modest taper after its two-day meeting that ends Wednesday. Countering that view is inflation data that remains well below Fed targets, as well the potential awkwardness of making a move before Janet Yellen assumes the Fed chair. Yellen is viewed as being more dovish than Ben Bernanke, and thus more likely to want to move more slowly.

A third way emerging in some Fed-watching circles postulates the FOMC will announce plans to reduce asset purchases while also lowering the unemployment-rate threshold for raising the federal funds target, thus reinforcing the notion that tapering (i.e., less easing) is not the same as tightening (outright increases in the benchmark funds rate).

In short, Wednesday holds a lot more drama than is typical for a December Fed meeting.