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Weekly Commentary

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Fed begins the long road back to 'normal'

The Federal Reserve prefers to telegraph major changes to its monetary policy, and it certainly did so in the run-up to a shift announced last week. In the statement released after the Federal Open Market Committee [FOMC] meeting, policymakers said they would begin to reduce the Fed's $4.5 trillion balance sheet by tapering reinvestment of maturing securities starting in October. But the details of this gradual normalization process—rolling off only $10 billion a month to start—were not announced because they had already been laid out in the summer. Why the abundance of clarity and groundwork? The Fed does not want a repeat of the "taper tantrum" of 2013. To further avoid upsetting global markets, the FOMC did not raise rates at the meeting, although suggested an additional hike could come in 2017.

In other economic news, sales of existing homes fell in August, affected in part by the hurricanes that ravaged the South.

The short end of the London interbank offered rate (Libor) yield was essentially unchanged last week from the week prior. One-month Libor remained at 1.24%, 3-month increased 1 basis point, from 1.32% to 1.33% and 6-month Libor rose 3 basis points, from 1.47% to 1.50%.

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Views are as of September 25, 2017, and are subject to change based on market conditions and other factors.