Weekly Commentary

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The Fed comes through

As there are no cash managers among the press corps attending the press conference following the Federal Open Market Committee (FOMC) meeting last week, no one asked Chair Powell "What took you so long?" That's because the question would have referred to the Federal Reserve's raising of its rates on the Reverse Repo Facility and Interest on Excess Reserves—not exactly something the general public cares much about.

But perhaps people should. Many are invested in mutual funds and liquidity products that use these administered rates for overnight trading, and these have been earning very little interest. In lifting them by 5 basis points each, the Fed put the liquidity markets on a path to functioning better. Many in the industry have been calling for this for some time now, and it is good the Fed finally listened—or at least also saw the need.

That wasn't the only good news for the money markets at the FOMC meeting. While the fed funds target range remained at 0.0-0.25%, participants projected it to rise in 2023, with two more hikes coming by the end of that year. It is a reasonable expectation, and our best guess, too. But the hope is that liftoff will happen even earlier.

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