FOMC Minutes Signal Balance Sheet Reduction Next Month

The minutes to the March FOMC were expected to reveal committee discussion on the timing and magnitude of the Fed's balance sheet reduction. This afternoon's release showed the detail in those minutes was surprisingly clear – committee members generally agreed that a maximum of $60 billion in Treasuries and $35 billion in MBS's should roll off monthly, although the amount will likely be phased-in over several months.

At the expected pace, the $9 trillion balance sheet will shrink by a max of $1.15 trillion per year. It was generally agreed that *asset sales* would not be considered until after the runoff is well under way. The committee expects to finalize details and make the formal announcement at the May meeting.

The other revelation in the minutes was that "many" committee members had actually preferred a larger 50 basis point hike last month, but decided on 25 bps given the uncertainty surrounding the war in Ukraine. Since the meeting, a parade of FOMC members have expressed desire or willingness to move in bigger increments.

Inflation was the dominant discussion theme in the March minutes; Bloomberg noted there was no mention of "recession." It seems clear that Fed officials are willing to sacrifice economic growth to achieve price stability ….at least for a while. The committee recognized that if the public begins to question the Fed's resolve, inflation expectations could become embedded. This concern seems to support the idea of front-loading with bigger rate hikes at the next two meetings.

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Market Indications as of 2:44 P.M. Central Time

DOW	Down -168 to 34,474 (HIGH: 36,800)
NASDAQ	Down -301 to 13,903 (HIGH: 16,057)
S&P 500	Down -53 to 4,472 (HIGH: 4,797)
1-Yr T-bill	current yield 1.74%; opening yield 1.72%
2-Yr T-note	current yield 2.50%; opening yield 2.53%
3-Yr T-note	current yield 2.68%; opening yield 2.72%
5-Yr T-note	current yield 2.70%; opening yield 2.71%
10-Yr T-note	current yield 2.61%; opening yield 2.56%
30-Yr T-bond	current yield 2.63%; opening yield 2.59%