# Fed Sets 8-Month Tapering Schedule, Starting in November

By: Eric Stein, CFA | September 23, 2021

**Boston** - The U.S. Federal Reserve had what I would describe as a moderately hawkish meeting on Wednesday, as it accelerated its timetable for tapering, and set the stage for eventual rate increases.

Fed Chair Jerome Powell indicated that tapering would begin in November, scaling back current purchases of $120 billion per month by $15 billion —$10 billion fewer U.S. Treasury purchases and $5 billion fewer of mortgage-backed securities (MBS). That implies an eight-month period of tapering, concluding in mid-2022.

At his press conference, Powell made a big distinction between the schedule for tapering, which seems ready to start in November barring a dramatic change in the economy, and the lift for rates. The Fed's "dot plot" chart now shows that nine of the 18 Federal Open Market Committee (FOMC) members anticipate rates beginning to increase in mid-2022, from the current target of 0% to 0.25% to slightly over 2% in 2024.

That implies rates will still be very low for a long time — even though the Fed bumped up its projections for 2021 inflation to 4.2% from 3.4% in June, as measured by personal consumption expenditures (PCE). The Fed still feels the inflation bump is "transitory," as it predicted rates of 2.2% for 2022 and 2023.

The yield curve flattened very slightly on Wednesday — perhaps a signal that the market believes, at the margin, the tightening will push down inflation, justifying the curve flattening. But the slight nature of the flattening may also indicate that the market is questioning how much the Fed can continue to raise rates.

One interesting note is the emerging picture of how the Fed is evolving its *average inflation targeting* (AIT) policy. At last June's meeting, which was even more hawkish than the September meeting, policymakers seemed to have a low tolerance for inflationary overshoot of the 2% target; at the Wednesday meeting, the tolerance for overshoot seems to be higher.

**Bottom line:** We now have a more definitive plan on tapering from the Fed. For other clues on the timing of rate hikes, the market will be watching for further signals from Fed governors, the strength of the recovery (and the Delta variant's impact), and the course of inflation.

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