Rates In Flux As Omicron Creates Uncertainty - Fixed Income Overview

The renomination of Fed Chair Jerome Powell for another four years is not expected to result in any changes to monetary policy objectives. With the emergence of the new Covid variant, the Fed now has the challenge of taming inflation while not stifling a sensitive economic recovery. Comments by the Fed Chair conveyed that the Fed will start raising rates once it has ceased buying treasury and mortgage bonds as a stimulus effort. It signaled that it may start that process before the third quarter of 2022.

Tapering objectives by the Federal Reserve may be modified should the latest Covid variant prove to hinder economic recovery, yet the Fed is still on track to add another $420 billion to its already inflated $8 trillion balance sheet.

Rates were in a state of flux at the end of November as short-term government bond yields rose simultaneously as longer term yields fell. Economists view this dynamic as a flattening yield curve representative of slowing economic growth. The yield curve flattened to levels not reached since the onset of the pandemic in 2020.

Sources: Fed, U.S. Treasury