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BLOG POST

Saved by Zero

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Many will remember the classic hit by The Fixx by the title above. Fed Chair Powell has stated on many occasions that he does not think it would be helpful to price Fed Funds below zero, as the Fed has other policy tools he believes would be more effective at accomplishing their targets. Traders evidently do not find Mr. Powell's words reliable as the futures markets began pricing a negative Fed Funds rate beginning in April 2021 for the first time in history. The willingness of the Fed, and other Central Banks around the world, to adopt "non-traditional" policy is likely the reason the market is pricing in negative rates. The Fed recently began buying non-investment grade bonds, junk bonds, through ETF purchases in the open market so there is a wide range of possibilities.

- The thought behind negative rates is to punish banks for holding excess reserves at the Fed. By forcing banks to pay to hold reserves the Fed hopes banks make a greater commitment to lending to spur economic activity.

- Negative short-term rates are becoming commonplace with more than $15 trillion in sovereign debt, 25% of the government bond market, currently trading at negative rates out past 20 years on the German fund.

- The ECB was the first Central Bank to push rates into negative territory in June 2014 followed by the Bank of Japan going negative in January 2016. The benefits, other than lower debt servicing costs, are questionable.