**BLOG POST**
Tapping Excess Liquidity
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The Fed signaled at their December meeting an acceleration of tapering their bond buying stimulus with a goal to end all bond purchases in March 2022, well ahead of the previously communicated pace. This is in response to both consumer and producer inflation which they can no longer refer to as transitory, but remain hopeful that it is not persistent. The first acknowledgement from Powell that the Fed is 'behind the curve' in fighting inflation, the Fed also ratcheted up where they see interest rates over the next two years. Offsetting the impact of the Fed reigning in bond purchases has been bank credit which has been expanding in recent quarters but historically has slowed dramatically when the economy shows signs of weakening or recession.

- Current Dot Plot suggests the Fed will hike rates .25% three times in 2022 and three times in 2023, although they do not expect to get to a neutral rate of 2.50% until some time in 2024.

- Analysts will be watching very closely the size of the Fed's balance sheet and if there are any attempts to reduce the bloated balance sheet. If the Fed sells assets it would accelerate tightening.

- Primary among concerns for investors should be Larry Summers' words: "There have been few, if any, instances in which inflation has been successfully stabilized without a recession."