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Four Months of Quantitative Tightening Erased in One Week

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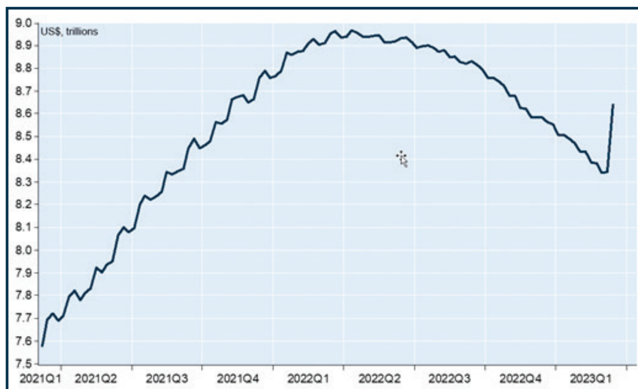
Those who read our articles regularly will recall a prior discussion regarding Quantitative Tightening (QT) which is the opposite of Quantitative Easing (QE). QE was first introduced during the 2008 financial crisis to help bring the economy out of recession – effectively, central banks print money to purchase bonds, injecting liquidity into financial markets while also reducing interest rates (central banks buying large quantities of bonds forces bond prices higher and interest rates lower). Quantitative Tightening involves central banks selling bonds which reduces liquidity and increases interest rates – this is done to help slow the economy and reduce inflation.

U.S.: Fed erases four months of quantitative tightening in one week

Total assets on the Federal Reserve's balance sheet



NBF Economics and Strategy (data via Bloomberg)

As shown in the chart above, the recent US banking crisis forced the Federal Reserve to quickly reverse course on QT – had to inject liquidity into the banking system to prevent a collapse. However, inflation remains too high which means the Fed must continue to remove liquidity by continuing Quantitative Tightening once the banking crisis is under control. The US central bank is the most influential in the world and they're in a tough spot – the cure (QT) may be worse than the disease (high inflation).

Please call one of our advisors to discuss the impact of quantitative tightening on your portfolio.

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