

# Fed Watch: The Final Countdown

Published 21 December 2020

## Kevin Flanagan

Head of Investment and Fixed Income Strategy

As we witnessed following the global financial crisis, the aforementioned facilities will more than likely wind down of their own accord. In other words, if the demand isn't there, they basically fade away without much fanfare. QE, on the other hand, is more of a potential headline-maker.

The Fed's purchase of Treasuries (UST) and mortgage-backed securities (MBS), a.k.a. QE, will more than likely be the central focus of the bond market as it pertains to Fed policy in 2021. Specifically, how will the Fed communicate how long the current pace of QE will remain in place? We saw this process beginning at the December FOMC meeting.

As the enclosed graph highlights, after the initial spring surge, the upward trend has shown more of a sawtooth pattern. But make no mistake, the purchases are continuing. To provide some perspective, the Fed's holdings of UST and MBS now stand at \$6.6 trillion compared to about \$3.8 trillion in February. At its global financial crisis peak, the level was 'only' about \$4.25 trillion.

As you may recall, the Fed reinstated QE in September 2019 to help alleviate some pressures that were emerging in the funding markets at the time. This round of QE got a shot of adrenaline in response to the challenges that were beginning to surface in March as a result of the pandemic-related shutdowns. More recently, the policymakers have reverted the current round of purchases to an economic-centric stimulus consideration.

Bottom line: There appears to be some idea the Fed may begin to actually taper this current round of QE in the first half of 2022, as the economic situation evolves. The key question is whether the UST market has entirely allowed for such a timetable. Against this backdrop, Fed forward guidance will be essential in order to avoid any type of "taper tantrum" such as we saw the last time around. However, it could open the door for the markets to misinterpret the policymakers' intentions.

## Important Risks Related to this Article

### Important Information

**Marketing communications issued in the European Economic Area (“EEA”):** This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

**Marketing communications issued in jurisdictions outside of the EEA:** This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

**For professional clients only. The information contained in this document is for your general information only and is neither an offer for sale nor a solicitation of an offer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.**

The application of regulations and tax laws can often lead to a number of different interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.