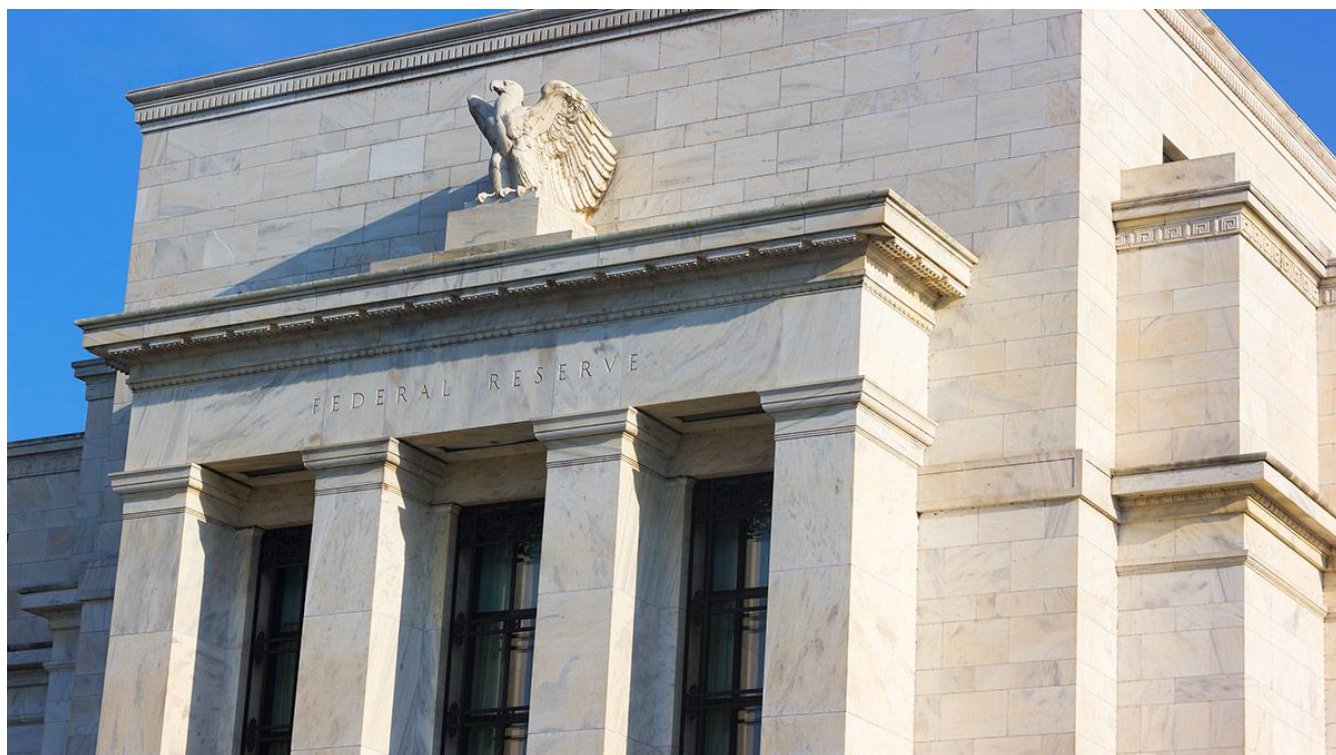


Rate Expectations

We expect the Fed to raise rates continually this year.

By Carl Tannenbaum



Over the years, I have tried to avoid serial re-forecasting. The practice suggests a lack of perspective and can invite questions of credibility. Recent months have certainly challenged my commitment to that orientation, with conditions in the economy and the markets shifting quickly.

There is still a lot of uncertainty about how activity and inflation will evolve over the balance of the year. The Federal Reserve is likely to provide a substantial amount of guidance on these

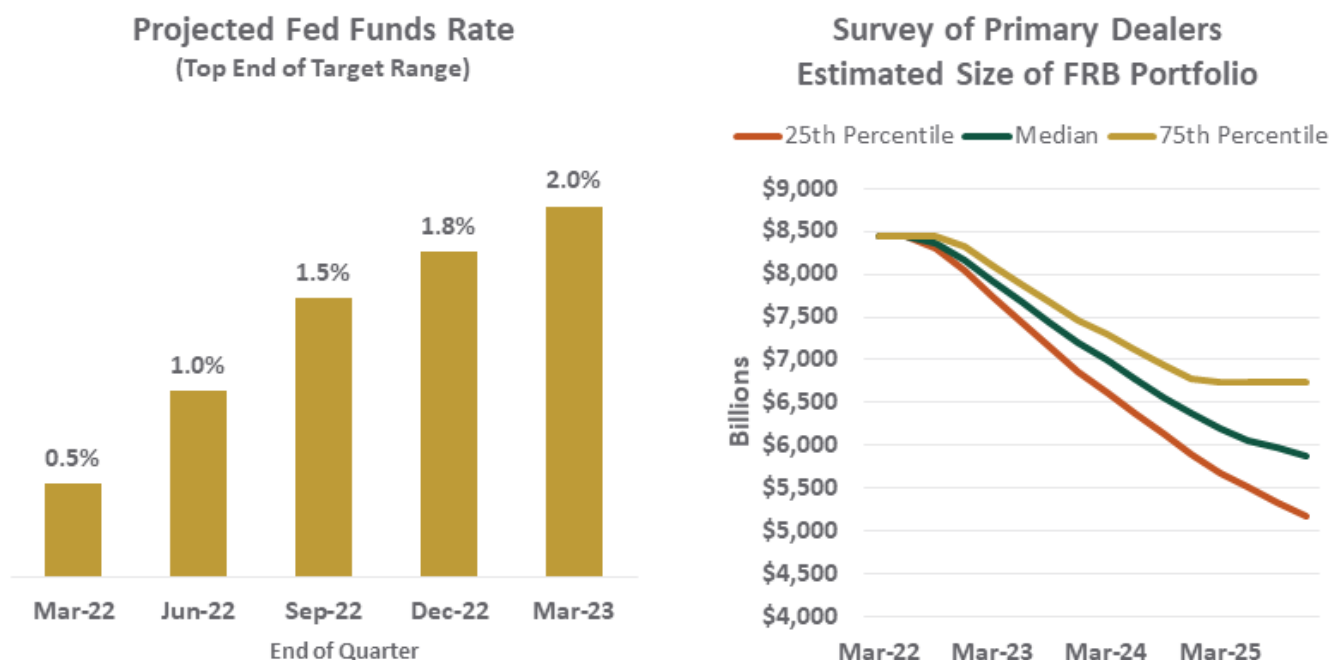
topics at its meeting on March 16. But we decided that we could not wait to update our expectations for monetary policy.

Our updated forecast calls for:

- Six interest rate hikes in 2022. We believe the most likely pattern will be five 25 basis point increases in consecutive meetings beginning in March, a pause in November, and then another step in December. A final hike would come in January of 2023.

Why the pause in November? Inflation is high, but likely to settle somewhat during the balance of this year. The question is how far, and how fast. We're anticipating that the Fed will want to take stock after its initial volleys to assess the environment and recalibrate their actions. Given our [inflation forecast](#), we think they will conclude that there is a little more work to do.

- Balance sheet reductions commencing in June. We shared our [thoughts on quantitative tightening](#) (QT) recently; the Fed's balance sheet is far too large for current circumstances. We expect the Fed's portfolio to shrink by around \$1.5 trillion over the next two years. As securities are returned to the market, financial conditions will tighten; to what degree is hard to anticipate.



Sources: Northern Trust, Federal Reserve Bank of New York

There is a high degree of uncertainty around the outlook, and also around how the Fed's actions will affect it. Policy will need to be reassessed at regular intervals. We may need to revisit our expectations for Fed policy at some point, but I hope that the interval between forecasts will be a long one.

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Carl Tannenbaum is the Chief Economist for Northern Trust. In this role, he briefs clients and colleagues on the economy and business conditions, prepares the bank's official economic outlook and participates in forecast surveys. He is a member of Northern Trust's investment policy committee, its capital committee, and its asset/liability management committee.

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