EDWARD CONARD

TOP TEN The New York Times BESTSELLER

# Macro Roundup Artcile

## Headline: When Will Balance Sheet Runoff End and How Will the Fed Know When to Stop?

**Article Link:** https://www.gspublishing.com/content/research/en/reports/2023/11/19/36cfcc76-d8ce-44af-adfc-698c976663a6.html

| | |
|---|---|
| Author(s) | Manuel Abecasis and Praveen Korapaty |
| Publication | Goldman Sachs |
| Publication Date | November 21, 2023 |

**Tweet:** A @GoldmanSachs forecast argues the FOMC will not moderate the pace of balance sheet reductions until late 2024. They write that the reduction is “likely already anticipated by financial markets” and therefore fully reflected in current rates.

**Summary:** We continue to expect the Fed’s balance sheet runoff to have modest effects on interest rates, broader financial conditions, growth, and inflation. Our rule of thumb derived from a range of studies is that 1% of GDP of balance sheet reduction is associated with a roughly 2bp rise in 10-year Treasury yields. In total, our projections for runoff imply that balance sheet normalization will have exerted around 20bp worth of upward pressure on 10-year yields since runoff started. Together with our rule of thumb that a 25bp boost to 10-year term premia from balance sheet reduction has roughly the same impact on financial conditions and growth as a 25bp rate hike, this implies that the total runoff process should have the effect of a little under one rate hike. Related: The Grind Ahead and Resilience Redux in the US Treasury Market and A Beautiful Replenishment

**Primary Topic:** Growth

**Topics:** Academic paper, Demographics, GDP, Growth, Unemployment/Participation, Weekly, Workforce

**Permalink:** https://www.edwardconard.com/macro-roundup/a-goldmansachs-forecast-argues-the-fomc-will-not-moderate-the-pace-of-balance-sheet-reductions-until-late-2024-they-write-that-the-reduction-is-likely-already-anticipated-by-financial-mark?view=detail

**Featured Image Link:** https://www.edwardconard.com/wp-content/uploads/2023/11/Fed-Balance-Sheet-.png