

## Macro Roundup Article

Headline: [Steepening Stance](#)

Article Link: <https://fedguy.com/steepening-stance/>

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**Tweet:** Noting the Fed's view that  $r^*$  hasn't gone up relative to pre-pandemic @FedGuy12 anticipates rate cuts and further QT, "The financial system needs an upwards-sloping curve to work well."

**Summary:** By any measure real rates have steadily risen as both actual and expected inflation have trended lower and nominal rates have trended higher. Without any change, policy would be unnecessarily tightening. Rates cuts and QT would together have a steepening impact on the curve and help address some concerns in the banking sector, whose margins have been squeezed by curve inversion. The Japanese experience with a persistently flat or inverted curve was poor growth and potential financial stability concerns as some investors reached for risk. This in part motivated the BOJ's 2016 foray into YCC, which steepened the curve by raising 10 year JGB yields above the deposit rate. The financial system needs an upward-sloping curve to work well, so the Fed may be nudging it in that direction. Related: Hidden to Market and Measuring the Natural Rate of Interest After COVID-19 and World Economic Outlook Chapter 2 The Natural Rate of Interest: Drivers and Implications for Policy

**Primary Topic:** Financial Markets

**Topics:** Financial Markets, GDP, Monetary Policy, Op-Ed/Blog Post

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