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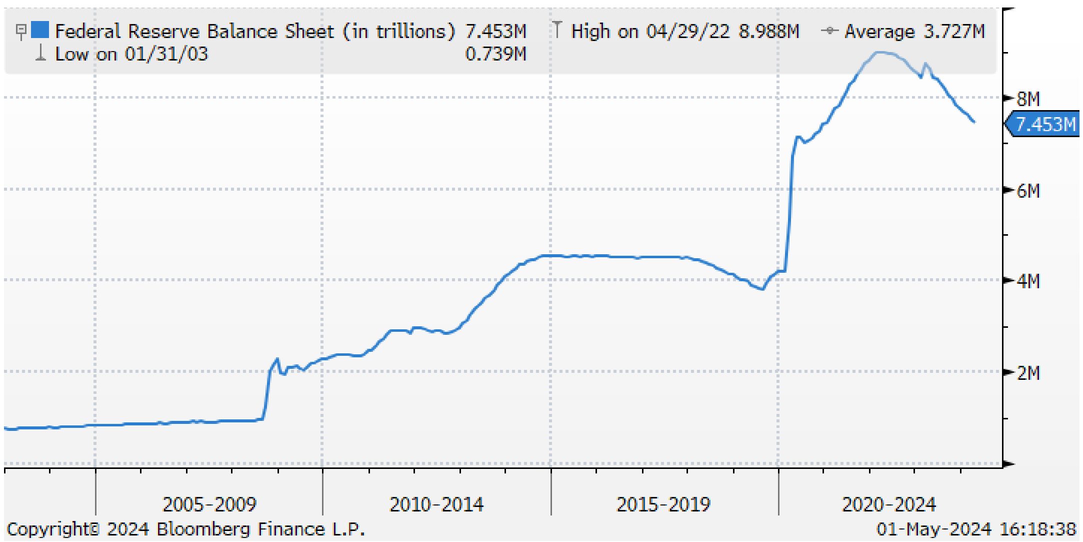

- As expected, the Federal Reserve left interest rates unchanged at its May meeting. Overall, the market took the tone from the meeting to be less hawkish than feared and as a result, UST yields moved lower.

- The committee announced that it will begin slowing the pace of balance sheet runoff (aka quantitative tightening or QT) in June.

- The monthly cap for Treasury runoff will be reduced from $60 billion per month to $25 bn. The market had anticipated that the cap would be reduced to $30 bn.

- The cap on mortgage backed securities (Agency MBS) will remain at $35 bn per month. However, with mortgage prepayment speeds near record lows (following the sharp rise in mortgage rates) the runoff of MBS has consistently been well below the cap (currently running at ~$15 bn per month).

- Slowing the pace of tapering will help the Fed proceed more cautiously and hopefully prevent a squeeze in funding markets similar to what occurred in 2019, the last time the Fed was doing QT.

- Powell's press conference seemed to indicate that the Fed is unlikely to hike rates again in this business cycle. However, his comments suggested that they would be willing to cut rates if there was a substantial weakening in the labor market. Based on his remarks, there appears to be an asymmetry in monetary policy even if inflation is elevated. This could be a challenge for longer-dated (10+ year) bonds as this asymmetry could result in an additional term premium being demanded by investors.

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