

QT vs. Stagflation

Quick Take on QT (and Stagflation)

In September, QT should be ramping up. From an implementation standpoint, the Fed may (or may not) be selling mortgage-backed bonds (though I expect some clarity on this on Wednesday).

From the Treasury side of their balance sheet, they have been pretty clear that they will be primarily relying on run-off.

The last time I ran the numbers was in September of last year, which seems dated, but given the pace of what they were buying and when they stopped, it's good enough for today's thoughts.

September & October Holdings

Based on my old calculations, the Fed owned \$3.4 billion of the Sept. 8 T-Bills **and \$9.8 billion of the 1.5% bonds that matured on Sept. 15**. Presumably, some or all of that was allowed to mature without being re-invested. We might get some better information when the Fed's weekly balance sheet update comes out on Wednesday.

The Fed holds \$33 billion of bonds maturing on Sept. 30. I checked the Sept. 30 holdings vs my calcs from last year and the holdings have barely increased – which is comforting since I rant about "garbage in, garbage out".

Oct. 15 includes \$15 billion, Oct. 31 includes \$29 billion, and Nov. 15 includes a whopping \$68 billion.

The Fed will have no problem reducing their balance sheet with Treasury maturities.

QT or Stagflation

For now, I will argue that the stagflation trade is what drove price action on the 15th, 16th, and today.

Having said that, I've argued that the QE trade helped all asset prices.

Since the 15th, when as little as \$9 billion was pulled out of the system, we've seen oil, gold, stocks, Treasuries, and crypto all decline in price.

Does that mean QT will drag all asset prices down or at least function as a headwind? (The latter is extremely likely).

It was probably a coincidence that the stagflation story got some new life after FedEx's warning, but it is something to keep in mind as we head into month-end. The Fed has significant holdings of bonds that they can allow to mature (without re-investing) to meet their goals.

Bottom Line

Probably stagflation (but keep QT in mind) and if you get a chance, please check out [our Fed Preview & Trader of the Year](#) awards report from Sunday.

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