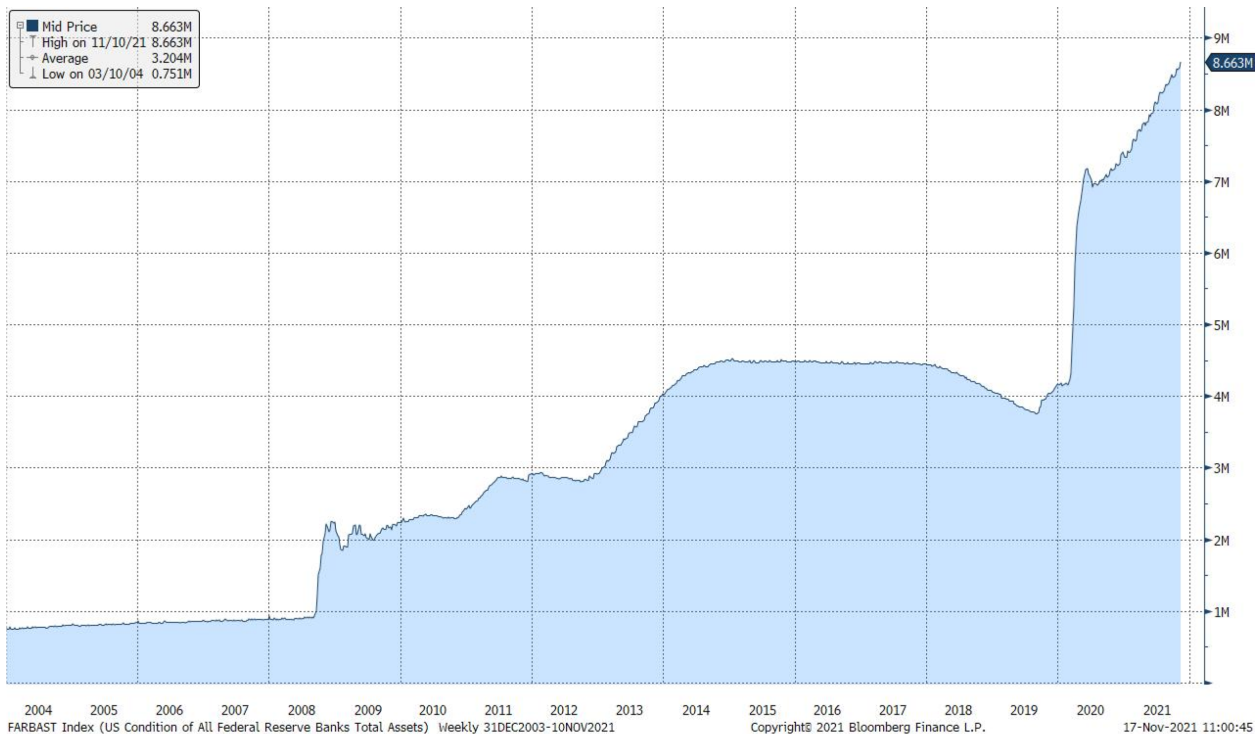
Abner Herrman & Brock
asset management

November 2021

Tapering

The Federal Reserve made an anticipated announcement this month to begin scaling back its Quantitative Easing (QE) program. The FOMC reduced its monthly asset purchase target for November by $10 billion Treasuries and $5 billion Mortgage Back Securities (MBS) for a total purchase amount of $105 billion compared to the previous monthly targets of $120 billion. The Federal Reserve further indicated that they would reduce their target asset purchases by $15 billion per month until the QE program is phased out around June of 2022, at which time, the Federal Reserve will likely maintain a portfolio of more than $9 trillion in assets.

Federal Reserve Balance Sheet



Source: Bloomberg

The extreme measures the Federal Reserve took during the pandemic are being reduced. While this is a reduction in accommodative policy, the Federal Reserve is still maintaining short-term interest rates near zero percent, and not decreasing the actual size of its balance sheet. The policy as a whole is still accommodative, but potentially changing to address inflation concerns coupled with an improving employment picture. Thus, for equity investments, AHB feels this tapering is unlikely to deter the recovery nor inhibit the economic growth and subsequent increase in equity prices. Where we see this tapering having the biggest potential effect is on interest rates. It is reasonable to expect that interest rates might move slightly higher as the FOMC scales back its QE program.

Abner Herrman & Brock
asset management

November 2021

Managing fixed income portfolios and the fixed income portion of balanced accounts for clients at the moment is certainly a delicate dance. AHB only invests fixed income portfolios in individual investment grade fixed income products and does not invest in fixed income mutual funds or ETFs. AHB believes this strategy is advantageous and specifically beneficial during rising interest rates periods, when interest rate fluctuations can negatively impact bond prices. Individual securities can be held to maturity and held through volatile periods, whereas mutual and ETF fixed income funds, have no set maturity date and can experience price pressure from redemptions and forced selling at inopportune times.

In addition high quality individual fixed income portfolios that are managed with an active ladder will experience periodic cash flows via maturities and coupon payments, and as interest rates rise will have the opportunity to reinvest proceeds at potentially newer, higher rates. Bond funds do not have maturities, and thus their price can depreciate without the opportunity to get the principal back and reinvest that proceeds at the newer, higher interest rates.

AHB fixed income portfolios seek to preserve capital and generate income. Therefore, we believe maintaining the portfolio's credit quality and intermediate duration at this time is the right strategy to achieve our client's goals.

For additional information please visit or contact:
www.ahbi.com
***Matthew Flood, Senior Relationship Manager** | 201-484-2050, mflood@ahbi.com*
***Alexander DiGregorio, Relationship Manager** | 201-484-2032, adigregorio@ahbi.com*