

Markets

## Wall Street Is Sizing Up Warsh's Options to Shrink Fed Portfolio

By [Alex Harris](#)

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Federal Reserve Chair nominee Kevin Warsh has several paths toward reducing the central bank's \$6.6 trillion balance sheet but the process will be costly and lengthy, Wall Street strategists say.

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### End bill purchases

While restarting QT is unlikely, the Fed could gradually reduce the pace of T-bill purchases from \$40 billion a month currently, or stop them altogether, according to Citigroup Inc. strategists Alejandra Vazquez Plata and Jason Williams. Their analysis suggests that even if RMPs stopped in June, reserves wouldn't drop significantly by December 2026.

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### Change regulation

For strategists at Deutsche Bank and JPMorgan Chase & Co. easing regulation will help reduce banks' demand for reserves – one of the Fed's biggest liabilities. Regulators could relax the liquidity coverage ratio or internal liquidity stress test requirements so lenders need to hold less cash. Dallas Fed President Lorie Logan, who previously

### Shift asset mix

The Fed can shorten the duration of its portfolio by continuing T-bills purchases or rolling mortgage-related holdings into short-dated debt to more closely match Treasury's issuance profile. The central bank holds about \$1.9 trillion Treasury notes that are maturing between 2026 and 2030. If it opted to reinvest half of those into T-bills, the average maturity of its assets would converge with Treasury's around mid-2029, JPMorgan's Feroli and Barry wrote.

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But without close coordination with Treasury, long-dated debt issuance needs and costs would rise significantly as the Fed retreats. Warsh has voiced support for overhauling the relationship between the Fed and Treasury with a new version of an agreement struck in 1951.

Barclays estimates that over a five-year period the market would have to absorb  almost \$1.7 trillion more in 10-year equivalent debt, pushing borrowing costs up by 40 to 50 basis points. The share of short-term debt held by the private sector would also fall, potentially distorting the bill market. 