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Investment Insights into Current Events

DiMeo Schneider & Associates, L.L.C.

Fed Ends Rate Hike Campaign

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Stephen Proffer, CFA
Institutional Consultant

As widely expected, Fed officials left the federal funds rate unchanged at their January meeting to a range of 2.25 - 2.50 percent. In his press conference, Fed Chair Powell cited mounting pressures on the economic growth outlook and tighter financial conditions beginning in the fourth quarter of last year as reasons for policymakers to opt for a wait-and-see approach. Fed policymakers did not change balance sheet normalization policy but said they would provide further guidance on the pace of balance sheet reduction program and the appropriate size of the balance sheet at future policy meetings. In short, Fed officials are comfortable maintaining a larger balance sheet going forward.

Key Points:

- **U.S. equities moved higher following the FOMC statement** and shrugged off concerns that Fed officials downgraded their economic growth outlook from "roughly balanced" to cautious as they wait for incoming data to determine appropriate policy adjustments. Presently, federal fund futures actually imply a rate cut is more probable than a rate hike in 2019. On balance, more accommodative monetary policy should be supportive of risky assets, however, slower growth could weigh on corporate earnings. For more information on the effects of slower global growth please see our *2019 Market Outlook*.

- **The treasury curve steepened** as the 2-year/10-year spread rose 2.6 basis points to 17.2 basis points while the front end of the yield curve remained inverted. The shape of the yield curve is sending Fed policymakers a message that monetary conditions remain too tight. Since monetary policy actions tend to impact economic activity with a lag, and the market does not expect another rate hike in 2019, astute investors will pay close attention to the Federal Reserve's balance sheet reduction policy.

- **In contrast to his statements at the December press conference,** in which Fed Chair Powell described the balance sheet reduction program as "on autopilot," Fed officials are now evaluating the appropriate long-term size of the Federal Reserve balance sheet. Chair Powell reiterated that Fed officials view the federal funds rate as *the* mechanism to achieve its dual mandate of full employment and price stability, however, the balance sheet may be used to complement interest rate policy. This is a key departure from previous policy guidance. It signals that Fed officials are uncertain they can reduce their balance sheet to pre-crisis levels without unduly tightening financial market conditions. Therefore, we believe Fed policymakers may be close to ending their balance sheet reduction campaign.

DiMeo Schneider & Associates, L.L.C. continues to believe that investors should be patient and adhere to a well-constructed, diversified investment portfolio anchored to your goals and time horizon. Despite elevated uncertainty, we do not find compelling reasons at this time that would justify overriding our asset allocation methodology.

For more information and assistance, please contact any professional at DiMeo Schneider & Associates, L.L.C.

About the Author:

Stephen Proffer, CFA, Institutional Consultant

Steve provides investment consulting services to institutional clients and nonprofit organizations. He services clients by providing advice and expertise on asset allocation, portfolio design, investment policy statements, manager search process, fiduciary stewardship, and overall investment management. Prior to joining the firm in 2017, Steve was an Associate Client Investment Officer with Northern Trust Asset Management where he provided comprehensive investment management services to discretionary institutional client portfolios. Steve earned a BA in Economics and Finance from the University of Illinois Urbana-Champaign and expects to earn a Masters of Analytics from the University of Chicago in 2018. He is a CFA® Charterholder and a member of the CFA Institute, CFA Society of Chicago, and The Chicago Council on Global Affairs. Steve enjoys outdoor activities and spending time with family.