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Investment Insights into Current Events

DiMeo Schneider & Associates, L.L.C.

Federal Reserve Raises Rates

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As expected, the Fed officials raised the federal funds rate 0.25% at their June meeting to a range of 1.75% to 2.00% and now forecast a total of four rate hikes in 2018, up from three rate hikes at the March meeting. The committee upgraded their forecasts for GDP, inflation trends and unemployment for 2018 citing stronger economic activity and tighter labor market trends. Fed policymakers revised their GDP forecast 0.1% higher to 2.8%, increased their inflation forecast 0.2% to 2.1% and now expect the unemployment rate to decline 0.2% to 3.6% by year-end. Fed officials maintained their forecast for three fed fund rate hikes in 2019. Following the release of the June FOMC meeting, the federal funds futures market increased the probability of a fourth rate hike in 2018 from 24% to 36%. The gap between year-end policymaker forecasts and market-implied expectations suggests investors remain skeptical economic conditions warrant a fourth rate hike in 2018.

Key Points:

- **Federal Reserve policymakers upgraded their assessment of U.S. economic growth.** Consequently, the committee now expects to raise the federal funds rate four times in 2018. The full impact of fiscal policy and monetary policy changes will take time to flow through economic channels. Furthermore, interaction effects of these policies could make the path of monetary policy normalization less discernable in the second half of 2018. Absent adverse economic impacts from foreign trade policies and monetary policy normalization, improving labor market and inflation trends are supportive of three total rate increases this year.

- **U.S. equities fell about 0.4% on concerns of higher inflation expectations but were mostly unchanged on the day**. The committee's upgraded forecast indicates they are raising rates for the right reasons – namely tightening labor market conditions and accelerated economic growth. Continued global monetary policy remains largely accommodative and supportive of equity valuations. While we continue to assess potential impacts of future Fed policy decisions on equity markets, we believe the dominant theme driving equities in 2018 is continued synchronized global growth which gained momentum in the second half of 2017.

- **The treasury curve was relatively unchanged as the 2-year/10-year spread held steady at about 0.4%.** The yield curve remains relatively flat and consistent with levels traditionally associated with tighter monetary conditions. Looking ahead, policymakers will continue to monitor potential impacts from expected treasury supply issuance and wind down the Federal Reserve's balance sheet – an event which has no precedent. Astute investors will focus on how rising rates and balance sheet normalization influence credit spreads and long-term interest rates. Fed policymakers could take a "wait and see" approach should either experience a sustained increase. Importantly, these forces are not new but do present more variables for data-dependent

Fed policymakers.

- **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 further information please contact any of the professionals at DiMeo Schneider & Associates, L.L.C.

About the Author:

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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 earned a Masters of Analytics from the University of Chicago in June 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.