Federal Reserve Raises Rates

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As expected, Fed officials raised the federal funds rate 0.25% at their March meeting to a range of 1.50% to 1.75% and reiterated their forecast for a total of three rate hikes this year. The committee upgraded their forecasts for GDP and unemployment for 2018 citing stronger economic activity and tighter labor market trends. Fed policymakers revised their GDP forecast higher 0.2% to 2.7% and expect the unemployment rate to decline to 3.8% by year-end. The committee previously forecasts unemployment would be 3.9%. In step with the improved growth outlook, Fed officials raised their forecast from two to three rate hikes in 2019.

Key Points:

- **Federal Reserve policymakers remain on track** to raise the federal funds rate three times in 2018. This is consistent with median expectations for 2018 released last December and is in-line with market-based estimates observed in federal funds futures contracts. We acknowledge the full impact of fiscal policies such as the recently passed tax bill and changes to foreign trade, along with the Fed’s balance sheet reduction program and increases in the federal funds rate, will take time to flow through economic channels and could make the path of monetary policy normalization in 2018 less discernable going forward. However, absent material impacts from these policies, improving labor market and inflation trends are supportive of three total rate increases this year. Market implied estimates are still forecasting two rate hikes in 2019.

- **U.S. equities were mostly unchanged** on the day given the move was widely expected. The committee's upgraded forecast indicates they are raising rates for the right reasons – namely tightening labor market conditions and accelerated economic growth. Furthermore, global monetary policy remains largely accommodative. While we assess potential impacts of future Fed policy decisions on equity markets, we believe the dominant theme driving equities in 2018 is the continued synchronized global growth trend that gained momentum in the second half of 2017.

- **The Treasury curve steepened modestly** with the 2-year/10-year spread rising 0.05% to 0.59% as higher long-term rates outpaced increases in short-term maturities. The yield curve continues to be relatively flat at levels traditionally associated with tight monetary policy however, real rates remain low by historical comparison and are still stimulatory. Looking ahead, policymakers will assess potential impacts from expected treasury supply issuance and wind down the Federal Reserve’s balance sheet, an event which has no precedent. Investors will focus on how these two policies influence credit spreads and longer-term interest rates. Fed policymakers are likely to 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 more information and assistance, please contact any professional 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 expects to earn 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.