# Economic Alert iQ

First Citizens
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**International**
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## Economic Alert: Fed expected to raise interest rates

**Fed meeting concludes today**

- Federal Reserve officials are likely to raise short-term interest rates when their two-day meeting concludes today.
- This will be the Fed's first policy meeting since the election of Donald Trump, who has pledged tax cuts and new government spending—policies that could affect the Fed's outlook for inflation and interest rates over time.
- Firstly, the central bank releases its policy statement and economic and interest-rate projections at 2 p.m, then Chairwoman Janet Yellen holds a press conference at 2:30 p.m.

**Implied probabilities of a rate hike**

Dates Meeting Calculation Calculated 12/14/2016 Based on rate 0.25-0.50

| Meeting | Prob Of Hike | Prob of Cut | 0.5-0.75 | 0.75-1 | 1-1.25 | 1.25-1.5 | 1.5-1.75 | 1.75-2 | 2-2.25 |
|---|---|---|---|---|---|---|---|---|---|
| 12/14/2016 | 100.0% | 0.0% | 92.0% | 8.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| 02/01/2017 | 100.0% | 0.0% | 86.3% | 13.2% | 0.5% | 0.0% | 0.0% | 0.0% | 0.0% |
| 03/15/2017 | 100.0% | 0.0% | 72.7% | 24.8% | 2.5% | 0.1% | 0.0% | 0.0% | 0.0% |
| 05/03/2017 | 100.0% | 0.0% | 61.4% | 32.2% | 6.0% | 0.5% | 0.0% | 0.0% | 0.0% |
| 06/14/2017 | 100.0% | 0.0% | 33.2% | 45.6% | 18.0% | 3.0% | 0.2% | 0.0% | 0.0% |
| 07/26/2017 | 100.0% | 0.0% | 30.4% | 44.5% | 20.4% | 4.3% | 0.5% | 0.0% | 0.0% |
| 09/20/2017 | 100.0% | 0.0% | 20.6% | 40.0% | 28.1% | 9.4% | 1.7% | 0.2% | 0.0% |
| 11/01/2017 | 100.0% | 0.0% | 18.5% | 38.0% | 29.3% | 11.4% | 2.5% | 0.3% | 0.0% |
| 12/13/2017 | 100.0% | 0.0% | 9.7% | 28.7% | 33.5% | 19.9% | 6.7% | 1.3% | 0.2% |

**Source: Bloomberg**

**Projected increases in 2017.**

- Officials' projections for their benchmark federal-funds rate in the quarterly chart known as the "dot plot" will be scrutinized for clues about where rates could be heading next year.
- Pre-Trump, officials implied they expected two quarter percentage-point increase in 2017.
- After Election results several Fed officials said they would not change their outlook until fiscal policies are enacted.

**How can investments react?**

**Stocks**

- A prolonged low interest environment has created the stock market's bull run, contributing to all-time highs as listed companies have used cheap financing to buy back shares.
- Generally, investors have drifted towards equities in search of dividend yield and capital appreciation because bonds are earning little but when rates increase, there can be a movement back to the bond market due to a an increase in bond yields, making them more attractive.
- Stocks will likely temporarily react negatively to a rate increase but this can be a short term dip because once the hike hits the impact is not as dramatic or volatile.
- Further, rising interest rates decrease the threat of inflation, which can be a headwind for gold because it is considered a hedge against inflation.

**Bonds**

- When rates increase storing money in fixed income investments will become more attractive.
- However it is anticipated that markets already have already adapted to Fed policy decision.
- Characteristics of a Fed tightening policy includes; Short-term interest rates increase, the yield curve is flatter, credit spreads widen and volatility increases.

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