

“Do you really want rising interest rates?”

By Tommy Williams, CFP®

Where do you begin? Upon what issue(s) do you want to focus? The pace of the news cycle has been so fast one hardly knows which way to look. So, we'll start with the Federal Reserve which recently raised rates for the third time in 2018. This was a highly expected move. In addition, the Federal Open Market Committee projects economic growth will continue for three more years, although its median numbers show growth slowing from 3.1 percent in 2018 to 1.8 percent in 2021. (Remember, forecasts, no matter how venerable the source are best guesses and not bedrock.)



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Investors weren't enthusiastic about the Fed's actions or its expectations, and the onset of United States-China tariffs didn't lift their spirits. Ben Levisohn of Barron's explained:

“The Dow Jones Industrial Average dropped 285.19 points, or 1.1 percent, to 26,458.31 on the week, while the S&P 500 fell 0.5 percent to 2913.98. Neither could be considered life threatening, and the S&P 500 still rose for a sixth consecutive month. So, while we need something to blame, we needn't get too worried. Last Monday kicked off with the implementation of tariffs by the United States and China and continued with a Federal Reserve rate hike. Neither was a surprise, though the Fed might have caught a few napping when it removed the word 'accommodative' from its statement.”

What does it mean when the Federal Reserve removes the word

'accommodative?' The Fed pursues 'accommodative' or 'easy' monetary policy when it is encouraging economic growth. Accommodative policy may include lowering interest rates or, in unusual circumstances, quantitative easing.

By removing the word, the Fed may be signaling that policy will be 'tightening' in an effort to prevent the economy from overheating, reported Sam Fleming of Financial Times. "Tightening" is Fedspeak for "we are going to raise interest rates." There is debate about whether rates are at a neutral level; one that won't cause the economy to run too hot or too cold. One must remember that the Fed's movements of lowering or raising interest rates are not an exact science.

In fact, you may be wondering - how does this affect you? If interest rates are rising, then how long before you can get back to 6 - 7 % CDs or highly rated

tax-free municipal bonds paying 5 - 6%? Please remember the Fed Funds rate is the interest rate that banks and credit unions charge to lend reserve balances to other banks and credit unions on an overnight basis. You are a very long way (if ever) from the inflationary 1980s when high rates on bonds and CDs were abundant. Though the Fed Funds rate was recently raised to 2.25%, a better indicator is the 10 year treasury rate hovering around 3% (and that is locking in for 10 years!)

No, I think it is a tricky path back to high riskless rates of returns. Those of us that continue to search for a safe way to obtain income in the 4 - 6% range must be resolved to seek creative solutions. Any such new solutions may not have even existed in what you call the “good ole days”. You might also recall the negative side of the high inflation era that existed in the 1980s. While savers had a field day, borrowers paid a horrible price. Stay tuned, yet realistic, while we watch to see what opportunities

emerge from future Federal Reserve actions.

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