"Can the Federal Reserve impact you?"

By Tommy Williams, CFP®

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Not everybody loves meetings and even fewer enjoy reading the minutes of a meeting, but investors make an exception with the Federal Reserve. This week the Fed published the minutes from its August 1 meeting. While no changes were made to interest rates, the minutes did provide insight as to how the Fed sees the U.S. economy. Please know that many credible economic/market analysts credit the Fed with a broad understanding of the markets but little understanding of how investments perform. For example, former Fed Chairman Alan Greenspan was known for his brilliance. He may best be remembered for his "irrational exuberance" speech in which he implied the stock market was over-valued and investors were overly enthusiastic. It was fully two years later – after substantial continued growth that we did actually experience a pullback. Great intuition, bad timing.

It is however very important according to those same credible economic/market analysts to know how the Fed sees things. Here are some key insights:

- **The economy is strong.** The economy is poised for its best annual growth in a decade due to stimulation from tax cuts and federal spending. The current nine-year bull market is about to be the longest bull market in history and the stock market continues to hit new high marks. Inflation is back to the 2 percent range, after being essentially non-existent for several years. The already tight labor market continues to tighten, reported *The Wall Street Journal*. I was told by an informed source last week in Dallas that construction is crippled there due to a shortage of qualified labor.

While the Fed remains concerned about the risks of inflation, it also is concerned about slowness in the housing market. Home building has declined due to a labor shortage and to higher cost in materials from tariffs. My how times have changed!

- **When will the Fed stop raising rates?** The Fed is all but guaranteed to raise rates in September, with market odds at a 96 percent probability and a 60 percent probability for another hike in December. The Fed will continue its gradual interest rate increases for now as long as economic activity is consistently expanding at a sustainable rate. The minutes revealed the Fed governors will soon revise their policy stance from "accommodative to neutral," reported *MarketWatch*.

- **What does the Fed think about tariffs?** The Fed is aware tariffs could derail their initial plan of steady rate hikes. Although concerned about President Trump's tariffs, they are waiting for economic data to assess the damage. They did, however, say tariffs would have *"adverse effects on business sentiment, investment spending, and employment. Moreover, wide-ranging tariff increases would also reduce the purchasing power of U.S. households,"* reported *The New York Times*.

The Fed is content, for now, with their current policy stance of steady rate hikes, but are on edge as they wait to see how fiscal policy plays out in the data. It is more likely to raise rates two more times this year given the strength of the economy.

My current concern is that Federal Reserve actions raising the Fed Funds rate (the interest rate at which depository institutions – banks and credit unions – lend reserve balances to other depository institutions overnight) will be just enough to adversely affect the market value of bonds, but not enough to offer compelling rates on popular fixed rate instruments like FDIC insured CDs and fixed rate annuities. The next year should prove very interesting and challenging – especially for those trying to maintain their lifestyle with minimal risk in retirement. Stay tuned and close to a competent financial advisor!

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Tommy Williams is a CERTIFIED FINANCIAL PLANNER™ Professional with Williams Financial Advisors, LLC.