



# INCISIVE INVESTOR

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## WEEK IN REVIEW: FED RAISES RATES GRADUALLY

### Review of the week ended March 17, 2017

- **Federal funds rate target raised to 0.75%–1.00%**
- **BOJ and BOE rates unchanged**
- **China snugs monetary policy**
- **UK parliament passes Brexit bill**
- **Dutch populists fare worse than expected**

U.S. stocks edged lower on Friday but managed to post moderate weekly gains with investors awaiting further catalysts before jumping back into the market. The S&P 500 index shed 3.13 points, or 0.1% finishing at 2,378.25. The Dow Jones Industrial Average slid 19.93 points, or 0.1% to close at 20,914.62 while the Nasdaq Composite Index rose less than a quarter point to end at 5,901.

“The market is in a tight trading range and it’s fairly quiet. That said, the 10-year yield ticked down...and the financials are down while utilities, a bond surrogate, is up,” said Quincy Krosby, market strategist at Prudential Financial. The 10-year Treasury yield closed at 2.5% on Friday, locking in a weekly decline after falling in the wake of Wednesday’s Federal Reserve policy meeting. The financial sector dropped 1% with Goldman Sachs Group Inc. down 1.7%

and J.P. Morgan Chase & Co. off 1.1%.

### **Fed raises rates, continued gradual rise expected**

The US Federal Reserve’s rate-setting committee pushed policy rates up a further quarter of a percent at its March 15 meeting and indicated that it expects to hike rates twice more this year. Despite the Fed hiking rates at two of its last three meetings, financial conditions are easier today than they were on the day of the Fed’s December hike: Equity prices are higher, the 10-year US Treasury note yield is lower, the dollar is weaker and corporate bond spreads are narrower.

### **GLOBAL NEWS**

#### **BOJ and BOE stand pat; China raises short-term rates**

While the Bank of Japan is not in a position to hike rates anytime soon, the Bank of

England might be closer to a hike than markets expected. With Brexit looming, the BOE finds itself in a policy bind given the potential for economic and market volatility because the process is unfolding at a time when inflation pressures appear to be rebounding. In the wake of the Fed's hike, the People's Bank of China raised its reverse repo rate 10 basis points in an effort to keep the USD/CNY exchange rate stable and limit capital outflows. Thursday's hike was the second this year. However, China's official monetary policy benchmark deposit rate remains unchanged.

## **UK parliament passes Brexit bill**

After several weeks of legislative wrangling, the UK parliament this week passed the European Union (Notification of Withdrawal) Bill and the queen has given Royal Assent, clearing the way for the government to begin negotiations to leave the EU. The two-year process is expected to be triggered by the end of this month.

## **Dutch Populist Party underperforms expectations**

Support for Geert Wilder's Freedom Party faded in the final days of the Dutch general election campaign with his party finishing a distant second to the Liberal Party, led by Prime Minister Mark Rutte. Wilders had led in the polls for several months, but his party secured just 20 seats in the Dutch parliament versus 33 for Rutte's party. Rutte will now need to forge a coalition with several other parties, a process which is expected to be lengthy, as Rutte has ruled out including the Freedom Party in any coalition. In addition to eyeing the performance of populist factions, observers monitoring the electoral performance of populist factions report increasing political fragmentation in Europe. For example, the Netherlands now has 13 parties claiming seats in parliament, with the leading party garnering only 21% of the vote.

## THE WEEK AHEAD

- **The United Kingdom reports inflation data on Tuesday, March 21**
- **The Bank of Japan releases the minutes of its recent monetary policy meeting on Tuesday, March 21**
- **The US reports existing home sales data on Wednesday, March 22**
- **Fed chair Janet Yellen speaks on Thursday, March 23**
- **Global flash purchasing managers' indices are released on Friday, March 24**