Andrew Hill
Investment Advisors, Inc.
ResponsibleAdvisors.com

<u>Federal Reserve Drops a Clue for the "Varsity" Analysts</u>

March 15, 2017

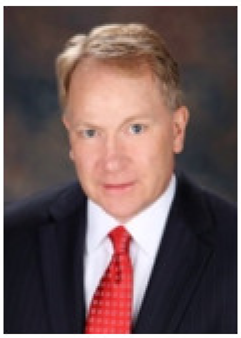
- Fed Funds increased from ¾% to 1%, up ¼%
- Surprising news, bond purchases to continue suppressing long term interest rates
- Economy expected to grow 2.1% in 2017
- Financial market reaction was for US Dollar to fall, while stocks and bonds rose

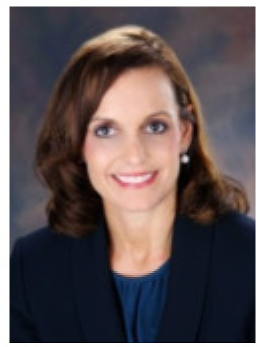
The Federal Reserve concluded its two-day meeting as expected by increasing the Fed Funds rate ¼% to a range of ¾% to 1%, up from 0% to ¼% last year. Even with the small increase in short term interest rates, the Federal Reserve is still "juicing" the economy. They would need to increase the Fed Funds rate to about 2% to be considered a neutral rate policy.

The 'Varsity" level clues to future Federal Reserve policy was buried in the press release, and stated that the they would continue to purchase bonds with the proceeds of their existing holdings (from the quantitative easing programs during the financial crisis). Dr. Yellen, Federal Reserve Chairwomen, stated that this policy of maintaining existing holdings in treasury and agency bonds would continue. This was a surprise to some investors. The impact of this policy could be that short-term interest rates rise with subsequent increases in Fed Funds and longer term interest rates remain at current levels. This would be good for long term borrowers but not so good for lenders, such as banks. Fortunately, we sold our BBT Bank position last month.

On the economy, the Federal Reserve's assessment was inched up a tick to an expected Gross Domestic Product (GDP) growth in 2017 of 2.1, with a range of 1.7% to 2.4%. Personally, I think it will come in around 2.5% barring a huge problem.

The reaction in the financial markets to the Federal Reserve comments has been positive for stocks and bonds, but the US Dollar has sold off sharply. Although post Federal Reserve meeting trading is dominated by computers, sharp moves can reverse quickly.





Andrew D.W. Hill, CFA
President and Co-Founder
239-777-3188
Andy@ResponsibleAdvisors.com

Jennifer Figurelli, CTFA
Managing Director and Co-Founder
239-777-3129
JF@ResponsibleAdvisors.com

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