



A FED PAUSE IN 2019?

November 28, 2018

Federal Reserve Chairman, Jerome Powell, spoke today at the Economic Club of New York and discussed the future direction of Fed policy. The statement that captured the attention of most market pundits was his statement about the current fed funds level. He stated, “interest rates remain just below the broad range of estimates of the level that would be neutral for the economy.” The neutral rate would be the level of interest rates that would neither speed up nor slow down the economy. This statement is somewhat softer than his previous statements about potential fed fund increases in 2019 and was with a 600 point plus rally in the equity market and slightly lower interest rates in the one to five-year maturity range.

GPA believes his statement today is one more indication that the current expectations for three fed fund increases in 2019 may have to be adjusted lower. Over the last six weeks, the equity market has suffered a significant sell-off as concerns have increased over the potential impact of proposed tariffs and a slowing in global growth. We expect that the December increase of 25 basis point will happen on schedule, but increases in 2019 will be more strongly debated next year. Key considerations in the near future will be the future growth in employment, inflation, and the potential path of trade tariffs. How trade discussions ebb and flow will certainly impact the economy and could influence future fed decisions. Inflation expectations are starting to decrease in market positions and will have a strong impact on how the fed responds in 2019.

GPA’s recommendation to our clients is to continue to invest into current yields that are at or close to ten-year highs while maintaining your portfolio durations at levels that are close to your benchmark durations. We may move higher in yields as we move into 2019 but any increase will be moderate and well communicated by the fed. We believe that 2019 will most likely prove to be a transitional year in terms of rates seeing a peak for this cycle.

Please call let us know if you have any questions about today’s statement by Chairman Powell or want to discuss the potential direction of interest rates.

2188 SW Park Place Suite 100
Portland, OR 97205 | Office: 503-248-9973

CALIFORNIA OFFICE
2010 Main Street, Suite 320
Irvine, CA 92614 | Office: 949-529-5289