



VCA Blog December 11, 2018

I know what the Fed is getting you for Christmas!

The Federal Reserve Open Market Committee meets next week and I know what they have for us!

Vertical Capital Advisors Blog

When the Fed meets this week, it is widely expected that they will decide to have the Federal Reserve Open Market Committee raise rates (technically just one rate, but all rates will react).

The Fed is likely to increase the Fed Funds rate by the standard 25 basis points or 0.25% as they have done three times this year and eight times since December 2015.

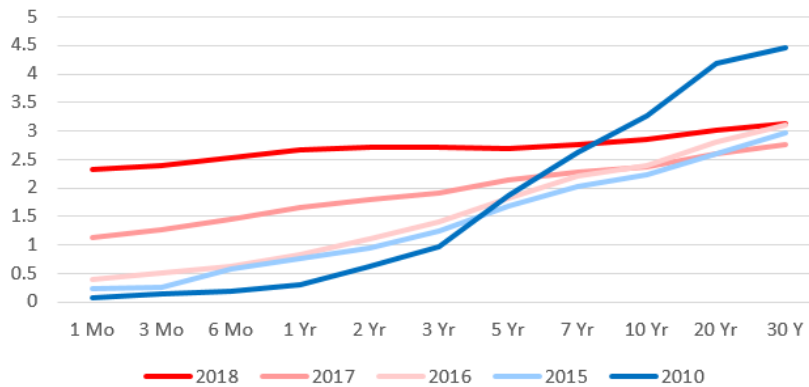


These increases act as a lever that pushes short term rates higher. You can see the impact that these eight rate hikes have had on short-term rates by how much the left side of the curves below have risen between 2010 and today (can't you just hear the clicks on the graph above lifting the dark blue line in 2010 below like a car jack to the dark red line today?):



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UST Yield Curve
Dec 8th-10th



Data source: treasury.gov / VCA created graphic

The next rate increase will probably cause the two-year rate to exceed the ten-year rate in the near future and when that happens a recession will follow.

Of course this means that borrowing gets more expensive.

Of course this means fewer people can afford to buy houses.

Of course this will slow economic growth.

Of course this will increase financial defaults.

Of course this impacts the value of assets.

Why? Why is the Fed raising rates again?

The Fed sees all and knows all. They know that the near-decade of zero interest rates they created also created an asset bubble - but they don't quite know what to do about it. So if the only tool in your toolbox is a hammer, every problem is a nail. You pound it! Right into the bubble.

The Fed's pounding on a nail affects all of us, yet what they really want to do is find a way to tame the asset bubbles that keeping popping up. Until they find a better or different way, prepare for these events so you are not caught off guard.



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Vertical Capital Advisors can help your business plan and execute strategies that enable your enterprise to thrive in all market conditions. Call us!

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