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FOMC Update: **Higher Rates**

WHAT TO DO WITH EQUITY PORTFOLIOS?

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Highlights: Federal Reserve Rate Update

- As widely expected, today the Federal Open Market Committee (FOMC) announced an increase of 0.25% to the federal funds (fed funds) rate.
- The statement accompanying today's announcement acknowledged continued improvement in the US labor market amid moderate economic activity.
- The market reaction to higher expected interest rates and potential Trump administration policies poses a conundrum for US equity investors.

Today the FOMC announced an increase of 0.25% to the fed funds rate. The move was widely anticipated – three members of the FOMC dissented from the decision not to increase rates at the September meeting, the minutes from the November 1-2 FOMC meeting and Chair Janet Yellen's recent Congressional testimony suggested that most Fed officials expected a rate increase "relatively soon," and recent inflation data has been stronger than anticipated.

The statement accompanying today's announcement acknowledged continued improvement in the US labor market amid moderate economic activity. The statement pointed to "realized and expected labor market conditions and inflation" as key factors supporting the increase. The statement reiterated the expectation of "only gradual increases in the federal funds rate."

The market reaction to higher expected interest rates and potential Trump administration policies poses a conundrum for US equity investors. Since the US election, there have been three key trends – higher US interest rates, a higher stock market, and a stronger US dollar. A rising market and stronger dollar may support the outperformance of smaller, domestically focused companies relative to larger, global companies. But large companies are flush with cash and can borrow at very low rates around the world to support dividend payments and stock buy-backs.

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