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Future Rate Hikes and Market Volatility

On September 21, 2016, The Federal Reserve (Fed), once again chose to keep interest rates at the current rate. The last time the Fed raised interest rates was December of 2015. Prior to 2015, it had been close to a decade since the Fed raised rates, and due to the fact that we haven't seen a rising interest rate environment, investors and money managers everywhere are presented with new challenges.

The Fed is the only entity in the world capable of driving our 18 Trillion dollar economy into a recession. It is not the Brexit, turmoil in the Middle East, or our next President, it is the Fed. So this is why it is important to pay attention to what the Fed is saying and doing.

Much of what gives the Fed such tremendous power is their ability to raise and lower interest rates. It is the intent of the Fed to help our economy grow at a steady and sustainable pace. If they raise rates too fast, they risk destroying a lot of progress that has recently taken place. I often use the phrase, the U.S. economy is the eight hundred pound gorilla in the room, the Fed wants to feed the gorilla, not starve it. Keep that in mind.

"Our economy is always evolving and adapting, and we as investors need to adapt with it." — *Roger Ford*

I'm sure many of you reading this are well aware of the roller coaster the market has been on lately. There are multiple reasons for this, but allow me to state two of the big ones. Number one, the market hates uncertainty. If you want to create market volatility, just create a little uncertainty. That isn't hard to do in the world we live in today. There is no clear direction coming from the Fed at this point. Thus, there is uncertainty about what the Fed is going to do, and uncertainty drives market volatility.

Another reason why raising interest rates will cause market volatility is because raising interest rates will make it more expensive for corporations to borrow capital. This increase has to be reflected in the stock price of the company. However, it's important to note that given time, the market will adjust and we can expect to see more of the ebb and flow we have grown accustomed to over the past century.

As mentioned before, this environment provides us all with new challenges. Our economy is always evolving and adapting, and we as investors need to adapt with it. Future increases in interest rates spell new challenges, but they also bring new opportunities. Based on the commentary from the Fed this September, they seem to be preparing us for one rate hike this year. Most investors believe this rate hike will occur in December believing that the Fed does not want to be a part of the election dialogue, but this is just speculation.

One thing is for certain, we will continue to see market volatility and uncertainty between now and the end of the year. As I mentioned before, we haven't been in a rising interest rate environment in a while, and with this comes both new challenges and new opportunities; opportunities that we plan on taking advantage of here at Conservative Financial Solutions.

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