
FED WATCH: SCROOGED?

Kevin Flanagan – Head of Fixed Income Strategy
12/13/2017

The first snowfall hitting New York City this weekend served as a nice reminder that the holiday season is upon us. It snowed in the nation's capital as well, but that didn't stop the [Federal Reserve \(Fed\)](#) from reigning in the cheer, as the [FOMC](#) raised the [Fed Funds target](#) another quarter-point, to a range of 1.25%–1.50%. This was the third [hike](#) of 2017, and the policy makers have now raised rates by a full one percent since November of last year.

Was this latest increase an example of Grinch- or Scrooge-like behavior? Probably not. The Fed had done a very good job of telegraphing this move to the markets, so it was not a negative surprise. Some market participants will no doubt feel there was no urgency for another hike, as [inflation](#) and attendant expectations remain very well anchored. Indeed, the FOMC is still witnessing inflation readings below their 2% threshold, as measured by their preferred gauge ([Personal Consumption Expenditures Price Indexes](#)), and wage gains continue to be muted as well. To provide perspective, in last week's jobs report, the year-over-year gain in average hourly earnings came in at +2.5% in November, or .4 percentage points below the year-end 2016 reading of +2.9%.

In our opinion, even with this latest increase, U.S. [monetary policy](#) is still not restrictive. When you factor in the loose policy settings in both Japan and the [eurozone](#), monetary conditions on a global scale remain rather accommodative. It would appear as if the Fed is continuing on its mission of moving the Fed Funds target further away from zero while it still has the chance. Under chair Janet Yellen, the policy makers have emphasized how Fed Funds are the preferred tool to make adjustments, so any distance that can be provided between zero and the upper band of the overnight money target serves as a potential cushion if the voting members need to reverse course and lower rates in the future.

What about the future? As we all know there will be a new sheriff in Fed-town as of 2018. Earlier this month, the Senate Banking Committee voted 22:1 in favor of current Fed governor Jerome Powell's nomination to be the next chair. As of this writing, there wasn't yet a date set for a full Senate vote, but it appears highly likely that Powell will get approved. For the record, the next policy meeting is slated for January 30–31, 2018, and Yellen's term will end on February 3, 2018. Powell's nomination to be the next chair was probably the best outcome for the markets, especially in light of the fact that Yellen was not going to be reappointed. It seems reasonable to expect Powell would continue current Fed policy (gradual rate hikes and [balance sheet](#) normalization) at least for the next couple of FOMC meetings, before considering any change to the charted course.

Conclusion

Since the money and bond markets were expecting a rate hike this time around, attention was turned to the Fed's forecast for potential further increases in 2018. Heading into

this meeting, the outlook was for three additional increases next year, and that is where the FOMC's projections still point. In contrast, the fixed income arena was priced for only two moves from the Fed. Let's not forget that the pace of balance sheet normalization will be increasing as well as we move further into next calendar year—that is, barring any unforeseen developments.

Unless otherwise noted, data source is Bloomberg, as of December 11, 2017.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

For more investing insights, check out our [Economic & Market Outlook](#)

View the online version of this article [here](#).

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an “as is” basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the “MSCI Parties”) expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.
You cannot invest directly in an index.

DEFINITIONS

Federal Reserve: The Federal Reserve System is the central banking system of the United States.

Federal Open Market Committee (FOMC): The branch of the Federal Reserve Board that determines the direction of monetary policy.

Rate Hike: refers to an increase in the policy rate set by a central bank. In the U.S., this generally refers to the Federal Funds Target Rate.

Inflation: Characterized by rising price levels.

Personal Consumption Expenditure (PCE) Price Index: measure of price changes in consumer goods and services in the U.S. economy.

Monetary policy: Actions of a central bank or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.

Eurozone (EZ): Consists of the following 18 countries that have adopted the euro as their currency: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain (source: European Central Bank, 2014).

Balance sheet: refers to the cash and cash equivalents part of the Current Assets on a firm's balance sheet and cash available for purchasing new position.