

The Federal Reserve Raises Benchmark Interest Rate

Don Akridge, MBA, CFP®, CPA/PFS
U.S. Marine Corps Veteran – Emory University Alumnus

Monetary policy is normalizing due to economic improvement. On March 15, the Federal Reserve raised the benchmark interest rate by a quarter-point to a range of 0.75-1.00 percent. The increase was widely expected, and it represented a vote of confidence in the economy.¹

This was the central bank's second rate hike in three months, and Wall Street took it in stride, with the S&P 500 rising nearly 15 points on the day. One reason for that may have been the Fed's latest dot-plot forecast, which remained as it was when the last interest rate adjustment was made in December. The Fed still projects a total of three hikes for 2017.^{1,2}

When the economy picks up its pace, the Fed responds. In the past several months, job growth and economic output have been steady, and inflation pressure has built to where consumer prices are rising close to 2 percent a year. The central bank thinks economic growth is now significant enough to warrant a series of small rate hikes.³

As interest rates slowly rise, retirees & savers could benefit. While higher rates do imply costlier borrowing, there are also some positives that come with tightening. Rising rates are good for interest-bearing bank accounts and fixed-rate investment yields. Higher interest rates encourage banks to lend more, improving the availability of credit.

Rate increases often promote dollar strength, meaning the dollar could buy more abroad – a perk for travelers. Even with slim inventory in the housing market, home sales could now get a boost – prospective home buyers may not want to wait much longer to arrange a mortgage. If interest rate adjustments occur two or three times a year (as they once commonly did), then investors may interpret Fed monetary policy statements less obsessively and focus on market fundamentals to greater degree.⁴

As Fed chair Janet Yellen commented to reporters after the Federal Open Market Committee's decision Wednesday, "The simple message is, the economy is doing well." Sustained economic improvement commonly leads the central bank to increase interest rates.¹

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Citations.

1 - marketwatch.com/story/fed-raises-interest-rates-by-a-quarter-point-sees-two-move-moves-this-year-2017-03-15 [3/15/17]

- 2 - bigcharts.marketwatch.com/historical/default.asp?symb=SPX&closeDate=3%2F15%2F17&x=0&y=0 [3/16/17]
- 3 - nytimes.com/interactive/2017/03/15/business/federal-reserve-interest-rates.html [3/15/17]
- 4 - bankrate.com/finance/federal-reserve/benefits-higher-interest-rates-from-federal-reserve-1.aspx [3/15/17]