Caprin's Strategy Positioning Update

The Fed's Path in '17 and Beyond

Although the vast majority of market participants anticipated the quarter point (.25%) increase by the Federal Reserve this past Wednesday, a slightly more optimistic tone on the state of the economy and the pace of future tightening was present in the governors' latest projections and Chair Yellen's press conference. While adjustments were modest on all fronts, the expected number of interest rate hikes next year did move up by one, to end '17 near 1.4% on the Federal funds rate. Longer-term growth and inflation expectations both remained anchored at approximately 2%, while job market forecasts continued to be constructive.

These most recent estimates share many common themes with what we have been discussing in our recent updates, those of only moderately higher growth and inflation levels. However, we can certainly appreciate the Federal Reserve's somewhat heightened motivation to normalize rates. Chair Yellen mentioned again on Wednesday the committee's desire to have a greater cushion to cut rates should the economy stall for unforeseen reasons, and the risk of low yield driven asset bubbles remains evident. Perhaps most importantly, the market has already helped set the stage for further tightening by allowing the Fed to now operate without immediate fear of significant disruption.

While current fundamentals should not cause concern over a secular shift to significantly higher interest rates, we have found it prudent to continue adjusting strategies to a more defensive position given recent volatility and the Federal Reserve's moderately higher expectations for rate increases. For those strategies utilizing an ETF based overlay, we have been reducing interest rate sensitivity through the use of short and, in some cases, inverse vehicles, while portfolio roll in non-ETF strategies will continue to aid in reducing duration. If future data or policy points to a quickening of growth and/or inflation expectations, additional shortening could be seen within strategies as we remained focused on reducing volatility.

As always, please feel free to reach out to our investment team to discuss your accounts or if you have any further questions about strategies.