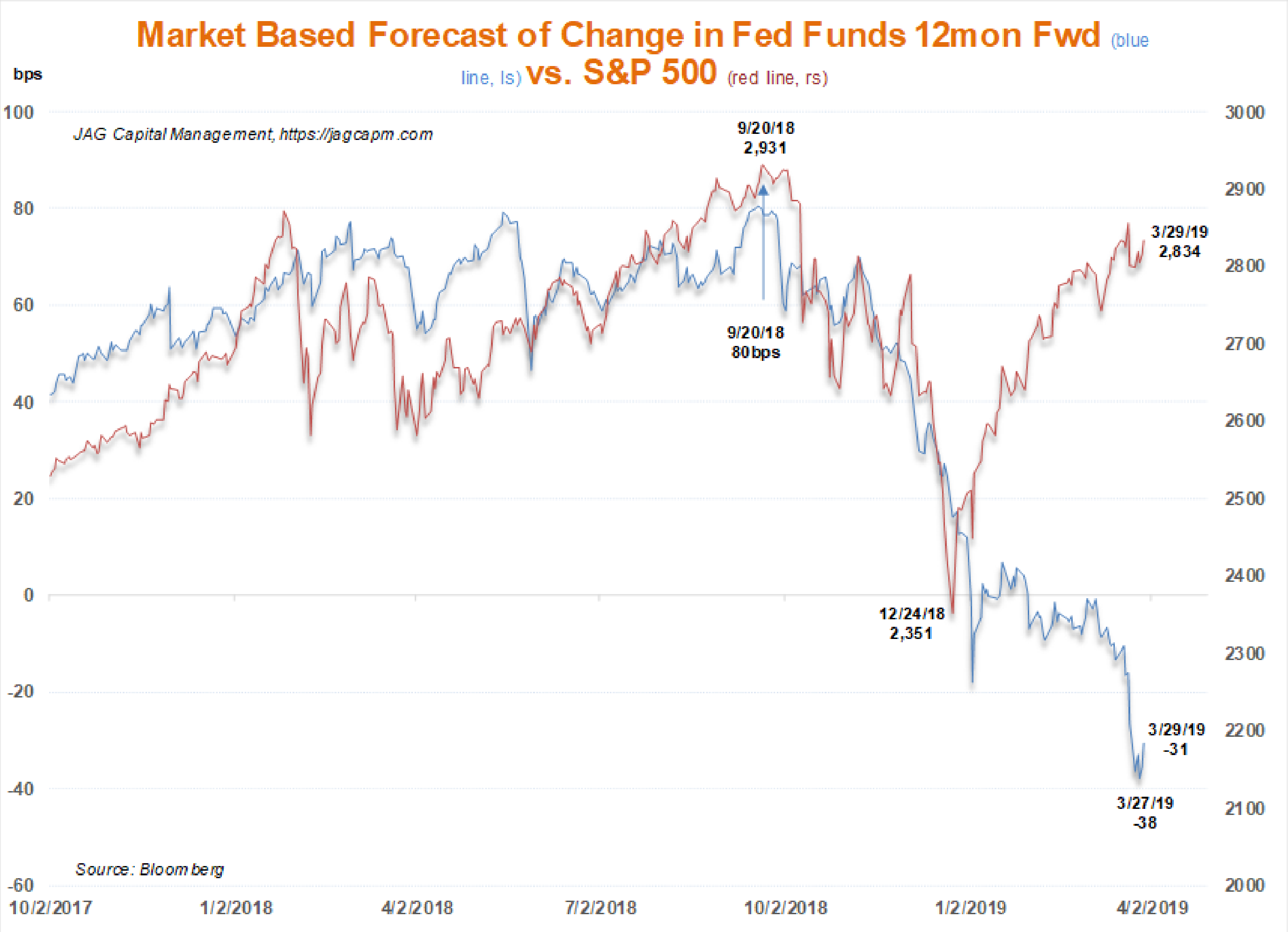
JAG CAPITAL MANAGEMENT LLC

**TWO MINUTE DRILL**
April 4, 2019

# Timely Insights from JAG's Research Team

Total reading time = 2 minutes




**Including the most recent .25% increase in December 2018, the Fed has hiked rates nine times over the past three years. Furthermore, as late as early October of last year, the Fed was indicating that future rate hikes were likely to occur into 2020.** While the Fed heavily influences short-term bond yields via their power to set the Fed Funds rate, market forces set equity prices, intermediate-to-long term Treasury bond yields, credit spreads, currency exchange rates, and a variety of other tradeable instruments. **In other words, investors and markets get to "vote" on central bank policies.** Late last year, investors began to signal that the Fed's hawkish tone on interest rates was wrong-footed. Stocks sold off by almost 20% between late September and late December, and credit spreads widened materially. By early January, bond investors were demanding 64 basis points more yield to finance BAA-rated bonds than they had during the first week of last October. This was the biggest 60 trading-day increase in investment-grade credit spreads since late 2011, and it translated into much higher costs of debt capital for domestic corporations. **In effect, the markets tightened financial conditions all by themselves, and in doing so they did much of the Fed's heavy lifting for them.** While we have no special insight into the mindset of Fed Chairman Powell or his colleagues, their recent comments have downplayed the prospects for further rate hikes in 2019. **What a difference a few months make. The chart above shows that markets are now expecting the Fed to ease over the next twelve months.** We think this dynamic has contributed to the strong rebound in stock prices so far this year. More importantly, we think the Fed would be correct to keep future rate increases on hold in the coming months. After all, inflation remains subdued, the US and China remain embroiled in contentious trade negotiations, and the pace of global economic growth is slowing. **In our opinion, this is not the type of environment that would indicate an aggressive or hawkish Fed policy.**

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