



## Investment note: Comment on Fed Rate Hike

Members of the Federal Open Market Committee (FOMC) voted for 25 basis points rate hike, raising the target range for the federal funds rate (Fed's benchmark rate) to "0.75% to 1%".

Manulife Asset Management Chief Economist Megan Greene examines why economic data justified a rate hike and its implications for the economy.

### Economic data justified a rate hike in March

According to Greene, the markets are currently in a good place to absorb a rate hike, not only because investors seem to know it is coming, but also because yields have come down moderately and the US dollar has weakened in recent weeks. Equities, meanwhile, have continued to soar. A weaker US dollar in particular gives the Fed room to hike now without risking pushing the US dollar up far enough to seriously threaten US growth

Economic data also justified a rate hike in March. ISM manufacturing data continues to suggest industrial production is expanding<sup>1</sup>. Survey data gauging confidence has been positive as well. Core Personal Consumption Expenditures (PCE)—the Fed's favorite metric for inflation—remained steady at 1.7% in January<sup>2</sup>, below the Fed's target of 2%, but not dramatically so.

The data is not unambiguously rosy in the US, though. As Michael McDonough from Bloomberg Intelligence rightly points out, the Atlanta Fed's GDPNow forecast was just revised down to 1.8%, its lowest level since last summer<sup>3</sup>. Still, economic data has on balance continued the trajectory it had already been on, and Fed officials have shown that they do not need to see growth accelerate to hike rates; they just need to see it continue.

### Economic and Market Impact

Greene is not expecting a significant hit to the US economy from a 25 basis points increase, in large part that is because the Fed's benchmark rate, at 1%, will remain below inflation and well

<sup>1</sup> Institute For Supply Management: Press Release, March 1, 2017.

<sup>2</sup> Bureau of Economic Analysis: Personal Income And Outlays (January), March 1, 2017

<sup>3</sup> Federal Reserve Bank of Atlanta, as of March 1, 2017.



# Investment Note

below the Fed's estimate of the neutral rate (3.3%). That implies that the Federal Reserve have remained highly accommodative.

Instead, the concerns remain centered on the potential for a surge in the US dollar, which would hamper US manufacturing, act as financial tightening and have a deflationary impact. But given that the market is now almost fully-priced, a strong US dollar reaction seems unlikely.

---

## Disclaimer

Manulife Asset Management is the asset management division of Manulife Financial. This material, intended for the exclusive use by the recipients who are allowable to receive this document under the applicable laws and regulations of the relevant jurisdictions, was produced by and the opinions expressed are those of Manulife Asset Management as of the date of writing and are subject to change. The information and/or analysis contained in this material have been compiled or arrived at from sources believed to be reliable but Manulife Asset Management does not make any representation as to their accuracy, correctness, usefulness or completeness and does not accept liability for any loss arising from the use hereof or the information and/or analysis contained herein. Information about the portfolio's holdings, asset allocation, or country diversification is historical and is not an indication of future portfolio composition, which will vary. Neither Manulife Asset Management or its affiliates, nor any of their directors, officers or employees shall assume any liability or responsibility for any direct or indirect loss or damage or any other consequence of any person acting or not acting in reliance on the information contained herein.

The information in this material may contain projections or other forward-looking statements regarding future events, targets, management discipline or other expectations, and is only as current as of the date indicated. There is no assurance that such events will occur, and may be significantly different than that shown here. The information in this material including statements concerning financial market trends, are based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons. This material was prepared solely for informational purposes and does not constitute a recommendation, professional advice, an offer, solicitation or an invitation by or on behalf of Manulife Asset Management to any person to buy or sell any security. This material should not be viewed as a current or past recommendation or a solicitation of an offer to buy or sell any investment products or to adopt any investment strategy. Nothing in this material constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. Past performance is not an indication of future results.

Investment involves risk. Investors should not base on this material alone to make investment decisions and should read the offering document (if applicable) for details, including the risk factors, charges and features of any investment products.

Proprietary Information – Please note that this material must not be wholly or partially reproduced, distributed, circulated, disseminated, published or disclosed, in any form and for any purpose, to any third party without prior approval from Manulife Asset Management.

This material is issued by Manulife Asset Management (Asia), a division of Manulife Asset Management (Hong Kong) Limited.

This material has not been reviewed by the Securities and Futures Commission (SFC).