

Fed Takes Break, No Rate Hikes

Uncertainty still remains about the future of rates.



By Jacob Yadegar

Although the Fed decided to take a break from raising interest rates, leaving the Fed Funds Rate at 5.25%, there still remains a lot of uncertainty about the future direction of rates.

Interestingly enough, when members of the Federal Reserve voted on the direction of rates, the decision to pause after 17 consecutive rate hikes was not a unanimous one. Therefore, leading analysts to believe the Fed may just be taking a temporary pause.

“The Committee judges that some inflation risks remain. The extent and timing of any additional firming that may be needed to address these risks will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming

information in their rate movements with both decreases and increases. So this time the Fed may be a bit more cognizant of this issue.

So what led to the Fed's decision to ease up for now?

Firstly, preliminary data on unemployment

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information,” The Fed said recently.

In other words, the Fed is waiting to see the inflation figures and economic outlook in order to determine how to proceed.

In analyzing the data, we have to keep in mind that changes in rate by the Federal Reserve take about 6 months to fully effect the market, and as it appears now data suggests the economy has already started to cool. Because of the “lag” in timing, the Fed has historically overshot its mark and gone too far

shows that claims for first time unemployment have been creeping up slowly over the last several months.

Secondly, the housing market is slowing down which the Fed has been pushing for over a year. Both existing and new home sales have slowed across the country.

Lastly, inflation figures show that with the economy cooling, preliminary data on inflation shows there may be a good chance of a reduction in inflationary pressure which should

keep the Fed from further rate increases.

The continued slow down in the economy will help the Fed refrain from further rate increases. In fact, history shows that the Fed has always overshot its mark and gone too far. This time is no different.

My prediction is that the Fed is more likely to reduce rates than increase them over the next 24 to 36 months.

The pause in further rate hikes will give the market and the Fed time to digest all of these dynamic changes that are taking place. My risk tolerance still favors fixed interest rates over variable ones for the time being since there are too many unknowns in the market.

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