Chart of the Month

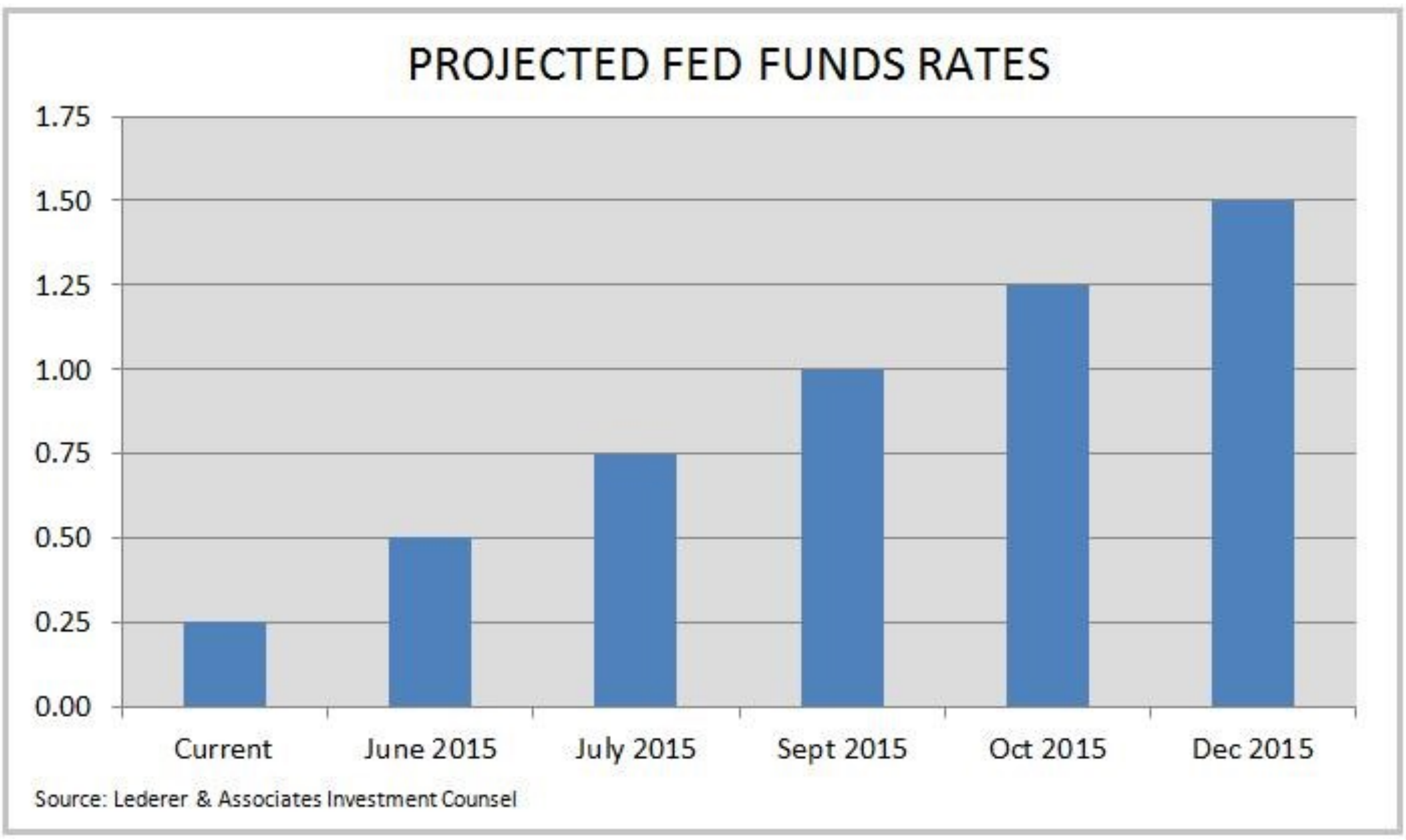
September 2014

The Federal Open Market Committee met last week and announced its latest monetary policy decisions. The Federal Reserve kept interest rates unchanged and reduced its asset purchases by $10 billion per month. The quantitative easing program (also known as QE), which began nearly six years ago, is on pace to conclude at the end of October.

The Fed maintained the term "considerable time" when describing the period between the end of its QE program and the first rate hike and reaffirmed its view that a "highly accommodative" stance remains appropriate. As a result of these comments, we do not anticipate that the federal funds rate will be raised during the next six months. However, according to the consensus projection of FOMC members, the federal funds rate is expected to reach 1.375% by the end of 2015. Based on the current target range of 0.00% to 0.25% and the assumption of quarter-point hikes every six weeks at each Fed meeting, one can back into the rate forecast to determine the date of the first increase and the timing of the subsequent bumps.

Our bar chart below depicts the pace of rate increases projected by the Fed. As shown, we believe that the current fed funds rate will remain unchanged until June 2015. Our model predicts that the rate will rise from its current target range of 0.00%-0.25% to 0.25%-0.50% in June, 0.50%-0.75% in July, 0.75%-1.00% in September, 1.00%-1.25% in October, and 1.25%-1.50% in December. The latter brackets the FOMC's consensus projection of 1.375%.

The schedule of these rate increases may be a bit more aggressive than the messages that Fed Chair Janet Yellen has communicated to date. As such, we would not be surprised if the rates were raised every other meeting rather than every meeting to allow the Fed to monitor the cause and effect of such moves. If so, the fed funds rate may not top 1% until 2016.



Lederer & Associates
Investment Counsel

5305 East 2nd Street, Suite 201, Long Beach, California 90803
Tel: (562) 434-5305 ▲ Fax: (562) 434-5306
www.lederer-associates.com