

# A Note From Your Advisors

BAIRD

---

THE MAIN, GOWIN, FISCHER, RICE GROUP

---

September 9, 2022

Let's talk about the Fed! For the past several years, the decisions made by the Federal Reserve Bank Central Committee – otherwise known as “monetary policy” – have played a bigger role in the performance of stock and bond markets than almost any other factor (the quality of corporate earnings will always be #1 on this list for us). During periods when the Fed was expanding the money supply and lowering interest rates, markets were feeling the love. But we also see in the past 12 months how markets react to the Fed tightening the money supply and raising rates, even if it's for good reasons. So it's tempting to think of them as the bad guys right now.

But hey, spare a sympathetic thought for the Fed. They are responsible for managing the health of a \$21 trillion economy, about the size of the next three biggest countries combined. They make decisions based on very imperfect information. Whatever they do, we don't know the full impact of it for many months. And when you get right down to it, they only have three tools in their toolbox to do the job!

- 1) They control the interest rate at which banks borrow overnight, either from each other (“Fed Funds Rate”) or from the Fed directly (“Discount Rate”). That's it – they don't control any other longer term interest rates, mortgage rates or anything else directly.
- 2) They expand or contract the supply of money in circulation ( including “Quantitative Easing/Easing”).
- 3) They make speeches. Lots and lots of speeches!

This past week, Fed Chairman Jerome Powell made “hawkish” comments indicating they are still inclined to raise rates further, and markets slid. Speeches have to grab attention to be effective as a policy tool. Look beyond the short term impact of speeches like these. Remember that nothing they are saying or doing is outside the boundaries of what we've planned for in your portfolio. Keep the faith, and call your advisor to discuss how this impacts you any time.



- The Main, Gowin, Fischer, Rice Group