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*On the Probability of a Rate Rise*

The market’s eyes have been on the Federal Reserve for the majority of 2016; while oil prices fell dramatically and the entire energy sector took a huge hit, many investors wanted to see if the Federal Reserve would increase the short-term interest rate. The current rate, 0.5%, is very low, and promotes lots of money lending. This encourages businesses and other actors to borrow money and use it to spend on capital goods. One of the primary reasons for keeping rates steady this past year has been in hopes of maintaining stability and ensuring domestic asset prices stay high, demonstrating the strength of the US dollar and of our economy. There have been rumors of a rate increase all year; a rate increase from its current point would bring the rate to a more neutral point, and would help get some people’s focus back on saving and away from spending, as both are necessary in a healthy economy. When lower than expected jobs numbers came back in August, most analysts took this to assume the earliest the market would see a rate hike would be in November. As November, and the Presidential election approached, volatility in the market was very high. As such, the Fed decided to keep rates where they were for another month. This brings us to December; after having pushed off this rate hike for a year, and seeing newfound confidence in the economy after the election results stabilized, the Federal Reserve will almost definitely raise the interest rate in the next month.

Throughout the night of the 2016 Presidential election, market volatility was at ludicrous highs. As the ballot swung towards Trump’s favor, the value of gold started to rise dramatically – gold is a safe haven asset, where someone might consider investing if they had little faith in the market’s prospects. In addition, the value of the dollar started plummeting in Asian markets that were open at the time, and the DOW Jones dropped over 700 points. These are all similar happenings to those that happened in June this year when the UK announced it would be leaving the EU after a referendum. Whenever a market is uncertain, investors tend to pull out of risky positions. This deflates the market overall, and can cause chain reactions. These sorts of events have been happening for most of the past year, and the Federal Reserve has been watching very closely.

The Fed is in a unique position in our global economy; the policies of any world power and the decisions made by any portion of the global market can have wide-reaching repercussions. Not wanting to stir the pot, the Fed repeatedly kicked the can of a rate hike month after month throughout 2016. Each month there was speculation, and each month a rate hike was not announced. In the earliest portions of this year, the Fed made it clear they were interested in raising the rate, and many analysts stated back in August and September that they expected a rate hike in November or December. With November a wash, December is all that is left. A rate hike in this newly confident market will have a number of effects: money stored away will gain more interest, which may help people relying on that interest as supplemental income, will promote economic growth, and may give the housing market a much needed kick start. With the market in its strongest position since the beginning of this year, and an economy braced for incoming changes, December is looking perfect for a rate hike.

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