Event Update

FOMC Meeting

Stewart & Mackertich
Powering Your Wealth

Key Highlights —

- The U.S. Federal Reserve raises the interest rate from 0.5% to 0.75%.
- The Fed last raised the rate in December 2015 from a record low near zero set during the 2008 financial crisis.
- According to Fed's new estimates Unemployment Rate will be at 4.5% by the end of 2017 and remaining at that level in 2018.

The U.S. Federal Open Market Committee (FOMC) raised key interest rates by 25 basis points to between 0.50% and 0.75%, encouraged by signs of an improving economy and labor market. In addition, the FOMC also indicated a higher rate than projected back in September when it last released the quarterly look ahead. The committee now expects three rate hikes in 2017, two or three in 2018 and three in 2019.

However, the committee continued to emphasize in its post-meeting statements that the path higher will be "gradual." It also stuck with language indicating that risks to the Fed's forecasts remain "roughly balanced," and emphasized that future moves will be data-dependent rather than subject to a set schedule.

GDP: The move came with an incrementally more upbeat look at the economy. Statement said "economic activity has been expanding at a moderate pace since mid-year," an upgrade from November's assessment that growth had "picked up from the modest pace seen in the first half of this year." The FOMC lifted its expectations for GDP growth from 1.8% in 2016 to 1.9% and 2.1% in 2017 against the previous estimate of 2.0%. However, 2018 remained at 2.0% while 2019 also was bumped up a notch, from 1.8% to 1.9%. The longer-run GDP projection remained at 1.8%.

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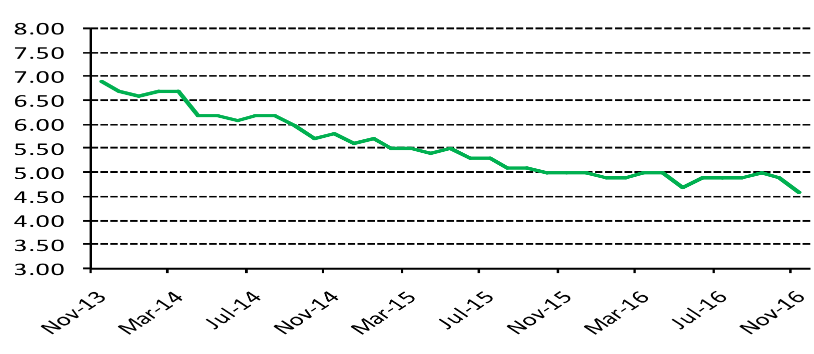
Inflation: The committee said market-based measures of Inflation remain low but have moved up "considerably". Annual Core PCE Inflation has remained stubbornly below the FOMC's target of 2.0%, due to collapsing energy prices. Core PCE rose 1.7% in November, the fastest rate since January 2012. The FOMC now expects, it will hit 1.8% in 2017 and 2.0% in 2018 and 2019. These forecasts are unchanged from September.

Unemployment: FOMC indicated that full employment is getting closer. Unemployment is expected to decrease to 4.5% in 2017, down slightly from the FOMC's previous forecast of 4.6%. Unemployment rate hit as much as 10% in October 2009 before declining steadily and reached 4.6% in November, the lowest since 2007.

Exhibit 1: Unemployment Trend



Source: Bloomberg