

# HOW THE FED RECENT INTEREST RATE HIKE AFFECTS BONDS



In mid-June the Federal Open Markets Committee met to decide on what, if anything, the Federal Reserve System (the Fed) will do about interest rates.

The Committee sets the government's monetary policy by specifying the short-term objective for the Fed's open market operations. Usually, they choose a target range for the federal funds rate, the rate that commercial banks charge between themselves for overnight loans.<sup>1</sup>

They seek to manage this key interest rate through the buying and selling of United States Treasury Securities, hoping the open market will respond. It usually does.

In their latest meeting the Committee decided to raise the target rate for the second time this year, aiming for the range of 1.75 - 2%. This upward adjustment of .25% is the seventh increase by the Fed since they began tightening the money supply in 2015.<sup>2</sup> Even so, you'll remember that prior to 2015 we had historically much lower than average interest rates that the Fed left unchanged during a multi-year period.

## What Does This Mean For Bonds?

In general, higher interest rates are bad news for borrowers and good news for lenders. As the effect of the rate hike ripples through our banking system, rates on new mortgages, credit cards, and business loans are all expected to increase. But on the other side of the coin rates on savings accounts, CDs, and bonds are expected to favor investors.

However, the relationship between bond *yields* and interest rates is usually indirect and often counterintuitive. When new bonds are available at a higher rate, sellers of existing bonds that carry lower coupon rates must discount their prices to make up for the lower

yield. This is why there is often short-term bond volatility when interest rates rise, as the market works through the new information.<sup>3</sup>

But other factors having nothing to do with interest rates can also have an effect on the demand for bonds and so cause their price to go up or down.

Since bonds are considered an alternative to stocks, and are in competition for investors' dollars, stock market fear and volatility can influence a rise in bond prices. For instance, the recent expectation of a trade war with China caused short-term investors to seek a safer haven in bonds. More dollars buying bonds usually equates to greater demand and higher bond prices. When bond prices are higher, bond yields are lower.

### **The Answer To Uncertainty Is Diversification and Discipline**

The twin goals of the Fed are to manage the money supply in an effort to keep both unemployment and inflation low. By gradually raising rates into what has been historically considered a "normal" range, they can make debt-based investments more attractive, while attempting to keep rapid inflation in check.

However, just because the Fed says rates are going up is not a signal to rush into newer bonds or out of older bonds. The markets' unpredictable short-term moves make trying to capture short-term gains or avoid temporary declines with a trading strategy nearly impossible. With so much unknown, your best strategy is to keep your personal debt low, your investment strategy diversified and rebalance your portfolio as asset categories inevitably change in price.

We can help you create a plan designed for long-term retirement success, and then help you adjust and rebalance your portfolio as needed when significant, unexpected life challenges come along.

Have a great weekend!

Source: Efficient Advisors

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## Golf Tip of the Week



### Stop Strong-Arming Your Swing

Conventional sporting wisdom may suggest that the more muscle you put into your swing, the farther your ball will go. Raw power equals distance.

Not in golf, according to top coaches. The game requires finesse, not brute force.

Watch the pros. Their swings follow an easy, balanced, rhythmic flow.

Here are some tips to remove the muscle from your swing and add some grace:

- Do a few relaxed practice swings. Focus on long, smooth ones.
- Address the ball as you would normally, but be relaxed. Try doing a big “yawn,” then let your jaw go slack. Hold a strong grip on your club for a couple seconds, then relax.
- Turn your shoulders as you begin your backswing rather than bending your right (or dominant) elbow.
- Bend your right (or dominant) elbow at the top of your swing, which will cause your wrists to cock. Let the swing flow in the same way as your practice swing.
- Your left (or non-dominant) side should start your downswing.
- Strike the ball and continue the swing naturally into your follow-through.

Keep in mind that natural, graceful swings will produce more distance and accuracy than bristle and brawn.

Tip adapted from Golfweek<sup>1</sup>

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# Recipe of the Week

## Mixed Green and Herb Tossed Salad



Serves 6

### Ingredients:

6 cups mixed spring greens (like Bibb, pea shoots, and mâche), torn  
2 cups mixed herbs (like tarragon, dill, mint, and chives), chopped  
1 cup shelled edamame  
¼ cup olive oil  
1 teaspoon lemon juice  
2 teaspoons Dijon mustard  
1 teaspoon honey  
Kosher salt  
Pepper  
1 small shallot, finely chopped  
Soft-cooked eggs and edible flowers, for serving

### Directions:

1. Mix greens and herbs together in a large bowl. Put in edamame.
2. Mix in olive oil, lemon juice, mustard, honey, and ¼ teaspoon each of salt and pepper. Add shallot and stir.
3. Gently add dressing and put eggs and flowers on top.

Recipe adapted from Good Housekeeping<sup>ii</sup>

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## Health Tip of the Week



### Get Healthy with a Disability

Stories tell of heroes with disabilities overcoming great challenges. The moral of those stories: You never have to let circumstances or your physical condition get in the way of your fitness goals.

If you have a disability, here's what you should do before you begin an exercise program:

- Discuss with your doctor the amount of exercise that's acceptable and any restrictions.
- Discuss your goals with an exercise professional.

Your goal is to reach and maintain 2 hours and 30 minutes of aerobic activity per week. Activities may include walking, wheeling in a wheelchair, swimming, or performing vigorous yard work.

Start slowly: Try doing something for at least 10 minutes and gradually add time until you reach 30 minutes at a time. If you can't reach those time goals, do as much as you're able to.

You should do strength-building activities at least 2 days per week. Strength exercises may include pushups or weight training.

Sticking to your routine is the best way to achieve your fitness goals. Here are some quick tips to keep you moving:

- Find an exercise buddy.
- If you fail to meet your daily goal, you have tomorrow.
- Best of all: Some exercise is better than none. So, keep at it.

Tips adapted from Office of Disease Prevention and Health Promotion<sup>iii</sup>

*specific investment advice. In all cases, please contact your investment professional before making any investment choices.*

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**Footnotes:**

1. <http://go.efficientadvisors.com/e/91522/-Federal-Open-Market-Committee/5jzvps/468968283>
2. <http://go.efficientadvisors.com/e/91522/rve-raises-interest-rates-html/5jzvpv/468968283>
3. <http://go.efficientadvisors.com/e/91522/erse-relationship-bond-prices-/5jzvpz/468968283>

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<sup>i</sup> <http://golftips.golfweek.com/stop-using-strength-golf-swing-20228.html>

<sup>ii</sup> <https://www.goodhousekeeping.com/food-recipes/easy/a19865491/mixed-green-and-herb-toss-salad-recipe/>

<sup>iii</sup> <https://healthfinder.gov/HealthTopics/Category/health-conditions-and-diseases/obesity/stay-active-with-a-disability-quick-tips>