

# the Connection

A Quarterly Review

3<sup>rd</sup> Quarter 2016

## Why the Fed Should Raise Rates

All political issues aside Janet Yellen and the Federal Open Market Committee should raise rates.

Low rates equate to spend now versus save for the future; theoretically putting more money into the market place keeping the economy moving (growing). This was needed during the 2008/2009 economic bust and was the correct short term solution. It does not encourage anyone to save nor does it help anyone who is trying to live off their savings. To us it signifies a time to wait things out...Why invest now if you are not losing out on the higher long term return on capital. Putting money to work in the short term is not the same as putting money to work for long term growth.

After the initial crises and lowering of rates there was an increase in spending and our country was able to slowly create a growing stable economy, but that initial boost has run its course. Now six years later it is time to return to a "normal" rate where people are encouraged to save and businesses, including banks, are rewarded for putting money into longer term projects that will pay off with higher returns.

Low interest rates are reputed to help the economy through two main channels: encouraging banks to lend money and convincing businesses to expand through the use of cheap credit. However, federal banking regulation has simultaneously pushed banks toward making only the safest loans, meaning that big companies get plenty of cheap money while small businesses, which are usually responsible for most job growth, have little access to the funds they need.

While the Fed seems focused only on the side of what good low interest rates produce, they appear completely blind to the good that could come out of raising rates. Here are some reasons the Fed should be considering.

**FIRST:** Higher interest rates would increase the income of savers which will ultimately boost consumer spending, something that the Fed and all the Keynesian economists value highly.

**SECOND:** Higher interest rates might actually make credit more available to small businesses. Considering small businesses are responsible for almost two-thirds of all new jobs created, leveling the credit playing field for small businesses relative to giant multinationals might well be positive to job growth.

**THIRD:** The Fed adjusts very short term rates not long term rates. The market place is responsible for setting long term rates (i.e. 30 year mortgages) A few small moves (+0.25%) on the front end of the yield curve should have very little impact on the long end of the yield curve in this environment of negative rates overseas. Global investors will all benefit from higher rates in the United States.

**FOURTH:** The stock market will not fall apart due to rate increases. The stock market reacts to the strength of the economy. The recent reports continue to show the U.S. is growing with little inflationary worries.

Whether an increase in rates causes a strengthening of the dollar vs. other currencies is an unknown. There are two schools of thought. One says a higher rate in the U.S. causes international capital to flow into the U.S. pushing up the dollar. The other says the strong demand to borrow the weaker currency (at low rates) and invest in higher rates will push the value of the weaker currency higher (a net neutral carry trade). A strong dollar creates higher imports while it weakens exports and it's debatable if that is a good or bad thing for the economy.

Don't you just love the inexact science of economics? No true answers just many opinions and theories.

The Fed should raise rates as a signal to businesses that the U.S. economy is stable giving them confidence to start expanding their workforce and long term capital investments.

## The Act of Giving

Below is an updated list of some organizations our clients are helping today. Please let Barbara know the name of organizations you care about and we will include them on the list next quarter. Send an email to [bcorley@gencappm.com](mailto:bcorley@gencappm.com)

*All Local Food Banks*  
[www.sfmfoodbank.org](http://www.sfmfoodbank.org)  
[www.shfb.org](http://www.shfb.org)  
[www.foodbankccs.org](http://www.foodbankccs.org)

*Bloom Marin*  
[www.bloommarin.org](http://www.bloommarin.org)

*Maya's Music Therapy*  
[www.mayasmusic.org](http://www.mayasmusic.org)

*Canal Alliance*  
[www.canalalliance.org](http://www.canalalliance.org)

*Friends of the Urban Forest*  
[www.fuf.net](http://www.fuf.net)

*Guide Dogs for the Blind*  
[www.guidedogs.com](http://www.guidedogs.com)

*Doctors without Borders*  
[www.doctorswithoutborders.org](http://www.doctorswithoutborders.org)

*The Nature Conservancy*  
[www.nature.org](http://www.nature.org)

*National Kidney Foundation*  
[www.kidney.org](http://www.kidney.org)

*Guide Dogs of America*  
[www.guidedogsofamerica.com](http://www.guidedogsofamerica.com)

*Golden Gate National Parks Conservancy*  
[www.parkconservancy.org](http://www.parkconservancy.org)

*Fine Arts Museums of San Francisco*  
[www.famsf.org](http://www.famsf.org)

*Canine Companions for Independence*  
[www.cci.org](http://www.cci.org)

*Alzheimer's Association*  
[www.alz.org](http://www.alz.org)

*The Foundation for Rotary International*  
[www.therotaryfoundation.org](http://www.therotaryfoundation.org)

*Redwood Empire Food Bank*  
[www.refb.org](http://www.refb.org)

*Sonoma Land Trust*  
[www.sonomalandtrust.org](http://www.sonomalandtrust.org)

*Friends of the Earth*  
[www.foe.org](http://www.foe.org)

*Eastside College Prep*  
[www.eastside.org](http://www.eastside.org)

*Northern Sierra Partnership*  
[www.northernsierrapartnership.org](http://www.northernsierrapartnership.org)