Weekly Commentary with Professor Jeremy J. Siegel

Fed Fund Futures Rate Predictions

Monday, 12/11/2017

Jeremy Schwartz, Director of Research for WisdomTree, hosts a weekly discussion with Professor Siegel, typically on the Wharton Business Radio podcast. The notes below summarize their conversation along with further commentary and context.

The market remained robust last week after a brief dip in the middle of the week.

We had the employment report on Friday—it came in very close to expectations, with payrolls up 228,000 and expected to be up 200,000—with no major revisions to past data. The unemployment rate came in as expected at 4.1%; the data showed a little soft hourly earnings but there was a bump up in the number of hours worked. All in all, the report removed any doubt or impediments to the Federal Reserve Board meeting this week that we should see an increase in the Fed Funds futures rate—another move to reduce policy accommodation.

The big news this week from the Fed will be the Dot Plot for 2018—whether there is any change from what we've seen before. Q4 GDP is running at 2.5-2.6%, still below 3%. There is a chance with a bump in Christmas sales that we can get closer to 3%, and if so, that would be three consecutive quarters with a 3 handle, which would be first time since the financial crisis this has happened.

Looking forward to next year, Professor Siegel believes there is a good chance we see three Fed hikes with a continued trajectory of the Fed removing its extreme policy accommodation on the heels of economic strength. The Fed futures for January 2019 were priced at 1.85% on Friday, and after the Fed hike widely expected for this week, we'll be at 1.25-1.50% for 2017 year end Fed Funds rates. This means there are approximately 2.5-3 Fed hikes priced into the market, while some optimistic forecasters are suggesting there could be four hikes, one at each quarterly meeting.

Last week there was an announcement on an infrastructure package, as Republicans start to look past the tax bill. There is still a lot of work to be done to finalize the tax bill, but Professor Siegel continues to believe the compromises will be made before Christmas and Trump will sign the bill as a Christmas present. Professor Siegel believes Republicans need to keep reminding the American public that 150 million Americans will see their withholding taxes go down in their January paychecks—as all the public opinion polls show a very negative view of the tax reform package, which he attributes to a poor job selling this tax cut to the majority of the public.

Professor Siegel continues to believe next year will be a bit tougher for the markets—with the Fed continuing its quantitative tightening programs and continued political uncertainty. Unlike the double digit gains from this year, we should expect a more subdued market environment in 2018.