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RETIREMENT & FINANCIAL PLANNING CORNER

Brought to you by Dave Hojlo,

Accredited Investment Fiduciary ("AIF")

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Who is the Federal Reserve and how do they affect your Financial Planning?

Who is The Federal Reserve?

The Federal Reserve, often referred to as the "Fed," is the central banking system of the United States. Established in 1913, its primary role is to promote monetary stability and economic growth. The Fed consists of twelve regional banks and a Board of Governors in Washington, D.C., headed by the Chairperson.

https://www.federalreserve.gov/aboutthefed.htm

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The History of The Federal Reserve

1913: The Birth of the Federal Reserve

In 1913, President Woodrow Wilson signed the Federal Reserve Act, creating a new kind of bank called the Federal Reserve. It aimed to help the economy and balance the interests of banks and regular people.

1929-1933: The Great Depression

The stock market crashed in 1929, leading to the Great Depression. Some people blamed the Federal Reserve for not preventing it.

1933: The Depression Aftermath

In response to the Depression, the Glass-Steagall Act was passed, separating commercial and investment banking and creating the FDIC.

1951: A Big Decision

In 1951, there was a big disagreement between the Federal Reserve and the U.S. government about interest rates. This led to an important agreement that gave the Federal Reserve more control over its decisions.

1970s-1980s: Inflation and Control

In the 1970s, prices went up a lot (inflation). The Federal Reserve had to act to stop this. They raised interest rates to control it.

1990s: Good Times

In the 1990s, the economy did well. Inflation stayed low, and the country enjoyed a long period of economic growth.

2007-2009: The Great Recession

Starting in 2007, the economy had a big problem (the Great Recession). The Federal Reserve did a lot of things to try to fix it, like lowering interest rates and buying financial assets.

2020 and Beyond: COVID-19

In 2020, a global pandemic (COVID-19) hit. The economy was in trouble again. The Federal Reserve did a bunch of things to help, like keeping interest rates very low and trying to make sure there was enough money in the economy.

https://www.federalreserveeducation.org/about-the-fed/archive-history/

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How does the Fed affect your Financial Plan?

Real Estate Market

The Fed plays a crucial role in the real estate market through its control of interest rates. Lowering interest rates can stimulate homebuying by making mortgages more affordable, while raising rates can cool down a hot market by increasing borrowing costs.

Investment Markets

Investors closely monitor the Fed's policies, especially changes in interest rates and bond-buying programs. These policies can influence stock and bond prices, affecting investment decisions. Understanding the Fed's stance is critical for investors seeking to navigate volatile markets.

Credit Cards

Credit card interest rates are closely tied to the federal funds rate set by the Fed. When the Fed raises rates, credit card interest rates tend to follow suit, impacting the cost of carrying credit card debt for consumers.

Student Loans

The Fed's actions indirectly impact student loans by influencing the overall interest rate environment. Student loan interest rates are often tied to benchmark rates affected by the Fed's decisions, making it important for borrowers to stay informed about potential rate changes.

https://www.bankrate.com/banking/federal-reserve/how-federal-reserve-impacts-your-money/

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Current Events Involving The Fed

After **raising interest rates eleven times** since March 2022, the Federal Reserve elected not to hike rates again at its September 2023 meeting of the Federal Open Market Committee.

How does this affect the aforementioned topics?

Real Estate: The raising of interest rates in real estate means a cooldown on home sales since it has become more expensive to buy a home. Also, rate hikes will impact inventory, buyers will not sell their existing home at a 3% rate to buy a new home at 7%.

Investment Markets: Rate hikes typically lead to higher borrowing costs for individuals and businesses, which can reduce consumer spending and corporate profits, potentially causing stock prices to drop. Additionally, higher interest rates can make bonds more attractive compared to stocks, leading some investors to shift their money away from the stock market, which can also contribute to market declines.

Credit Cards: Rate hikes typically lead to higher interest rates on credit card balances, making it more expensive for consumers to carry credit card debt, potentially increasing the cost of existing balances and encouraging more responsible credit card use.

Student Loans: Rate hikes can lead to higher interest rates on student loans, making them more expensive for borrowers, particularly those with variable-rate loans, potentially increasing the overall cost of education and monthly loan payments.

The Federal Reserve increases interest rates primarily to achieve 3 specific economic goals: control inflation, promote economic stability and support the labor market.

https://www.usbank.com/investing/financial-perspectives/market-news/federal-reserve-tapering-asset-purchases.html#:~:text=After%20raising%20interest%20rates%20eleven,between%205.25%25%20and%205.50%25.

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