



November 15, 2016
**Never been a Better time for the Fed
to Raise Rates**



Q: We have seen a lot of positive sentiment with Donald Trump getting elected as President. Is it the right time to buy into US equities at this point?

The focus has been on Trump and all the rhetoric that he has been pushing out. Meanwhile the US economy has actually been doing just fine and has been churning out some really good numbers and people have overlooked that. If you look at retail sales that come out yesterday – they have chalked up better than expected numbers and the previous numbers have been revised up. If you look at the Empire state manufacturing index, its turned positive in November after a negative October-both for shipments and for orders, and its come at a very crucial time. This is a precursor to the Thanksgiving holiday season, which goes into Christmas sales and that we know is the biggest part of the US economy. So there has never been a better time for the Fed to raise interest rates than this December. Its not about Trump, its about what the economy is actually doing underneath.

Q: The market is pricing in a 80% hike in December. Do you agree with that?

Yes absolutely, but I think people are getting far too optimistic about 2017. If you roll back to the beginning of 2016, we started 2016 with the expectation of four rate hikes. Nothing has happened

so far. We may get one. The market is saying two rate hikes in 2017 – it may not happen. I think the expectations of inflation have gone up far too quickly. Remember that even if Trump pursues an inflationary agenda, there are plenty of fiscal conservatives who will prevent him from blowing out the budget deficit. The budget deficit in the US is already at -3%. It can perhaps go to -5%. And even if that does happen, the growth aspects of fiscal reflation won't come through for another 12-18 months. So the possibility of inflation spiking up immediately, I think are quite premature.

Video Link:

<http://www.cnbc.com/video/2016/11/15/never-been-a-better-time-for-the-fed-to-raise-rates-expert.html>