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## **Following the Fed: Reliable resource for market context - by David Kirk**

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David Kirk

Kirk & Company

Jerome Powell, new Fed chair, speaking to the House Financial Services Committee on February 27, opened with personal optimism stating that his outlook for the economy had strengthened since December and cited the \$1.5 trillion tax cut and global growth. As Powell testified, stocks fell again, the dollar strengthened, and bond yields rose. On March 1 Powell spoke to the Senate Banking Committee as the securities market dramatically declined in reaction to tariffs on steel. The new Fed chair represented continuity and consistency, accessibility and transparency. Messages about the current context of the markets and economy and the Fed outlook, short and long, were in familiar terms and thorough. Read the testimony, the recent periodic reports, such as the Monetary Policy Report, and the Beige Book. Broadcast and forecast, all good for the practitioner, entrepreneur and politician, among others. Three to four hikes in rates during 2018.

The Fed still plans at least three rate hikes during 2018 and further deleveraging of the balance sheet. Both actions to normalize the market will continue to put upward pressure on rates, destabilize and quantitatively tighten the capital markets. Domestic capital markets have anticipated upward movement. Global capital inflows are more difficult to forecast with the broad improvements in the global economy. And currency, particularly dollar fluctuations, and trade, particularly with new tariffs, and hostile conflicts, already broadly active and complex. Preparing to thwart sudden recessionary pressures, the Fed has repeatedly stated that rate increases and deleveraging are essential to ongoing efforts to sustain economic growth and full employment.

With two appearances of the Fed chair in two days and the release of the Fed Monetary Policy Report within seven days of the chair's testimony, Fed followers might be gasping for breath. On page 24 of the Monetary Policy Report dated February 23, 2018, the introductory sentences in the section "Developments Related to Financial Stability," are:

"Overall vulnerabilities in the U.S. financial system remain moderate on balance. Valuation pressures continue to be elevated across a range of asset classes, including equities and commercial real estate.

In a sign of increasing valuation pressures in commercial real estate markets, net operating income relative to property values (referred to as capitalization rates) have been declining relative to Treasury yields of comparable maturity for multifamily and industrial properties.”

The Fed does report the economic data that is guiding and supporting FOMC decisions regarding monetary policy. And the Fed does provide the detail of the Fed outlook. For these reasons, the Fed is a particularly reliable resource for market context and economic outlook, even without much on commercial real estate.

David Kirk, CRE, MAI, FRICS, is principal and founder of Kirk & Company, Real Estate Counselors, Boston.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540