FEDERAL RESERVE PRESS RELEASE JUNE 14,2017 2:00 PM EDT

Hello everyone. Thank you for joining us once again here at Seifried & Brew for our Weekly Briefing. I am Jamie Sumner, chief analyst. For this week's topic we want to look at the Fed release last week. When we look at the Fed release they always put out their statement (Slide 2) about the economic condition of the United States and how that has changed since their last meeting. Overall what they have said here is that the labor market has continued to strengthen. And that's true, as we have seen the unemployment rate coming down, and even though the number of jobs created has been moving down a little bit, the overall unemployment rate has made some great headway.

The Fed also continues to state that economic activity has been rising modestly so far this year. We've seen that with that fairly low GDP for the first quarter in here. Hopefully we will see that when we look in the second quarter, being closer to that 2% mark. But overall they're suggesting that household spending has picked up in recent months, which is a positive, and also that business fixed investments continue to expand. That's what we want to see in here because these business fixed investments will provide us with the opportunity, as community banks, to expand loan portfolios in terms of that commercial portfolio, so that should be a positive.

However, when we look at inflation, (they've mentioned this, that on a 12-month basis inflation has declined recently) and that's something to keep an eye on with this commodity prices in here. However, when we move on from here (this is where they see the economic activity) (Slide 3) and they thought that it would be prudent to increase the Federal Funds rate. So now we're at that span of 1% to 1.25%, moved it up 25 bps in here. That wasn't a surprise, as we anticipated that movement.

(Slide 4) What was surprising though, is the fact that the Fed came out and they said that the committee currently expects to begin the implementation of the balance sheet normalization program this year. And that's a fairly big surprise that they came out with such language saying it is going to be this year as far as they can they see into the future. Now when we look at this in their minutes from the last meeting, the Fed came out with that process that they would initiate. And that would be to start off with a certain amount rolling off every month and then increasing that amount every quarter. And what they did is they took that a step further in this release to expand upon that and actually put some numerical values (Slide 5) to that. So while they're not telling us when they're going to start it, they're giving us a pretty good outline as far as how it will be implemented.

For the Treasury market, as you know we have the balance sheet comprised of mostly Treasuries and agencies, so for the treasury side of their investments they're going to look at initially a $6 billion roll-off a month and then increasing that by $6 billion every three months so every quarter they're going to increase that by another $6 billion until they reach the total maximum limit of $30 billion. So, for the Treasuries, they're going to start off at that $6 billion mark, increasing it by $6 billion every 3 months until they reach that $30 billion per month roll-off. Then for the mortgage backs they're going to start that off at $4 billion, rolling that off, and then increasing that by $4 billion as well over 3 months. So within the next year from when they begin the program, they will be rolling off about $50 billion a month once they reach their two maximums of $30 billion with inside the Treasuries and $20 billion inside the mortgage backs.

It will be interesting to see as the time comes and the Fed provides maybe more of a guidance, as far as when it's going to begin, how that's going to impact that Treasury market and the mortgage market in here in terms of rates (as you know the 10-year Treasury is down a little bit). We're looking at that 2.18 mark right now. Interestingly,

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we're up 100 bps on the Fed Funds from where it was at that 0-0.25 bound. Now we're up to 1.00-1.25 bound on that Fed Funds rate. So we've increased 100 bps; however, the 10-year Treasury actually has come down from where it was when they initiated the increase in rates back in December of 2015 when the 10-year was at a 2.28. And now that 10-year is that a 2.18. So that's where we are today. It will be interesting as we move throughout this year getting into the third quarter and then the fourth quarter to see how this is all going to play out within the markets. That's what we have for you today. Have a great day. We'll see you next week.

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