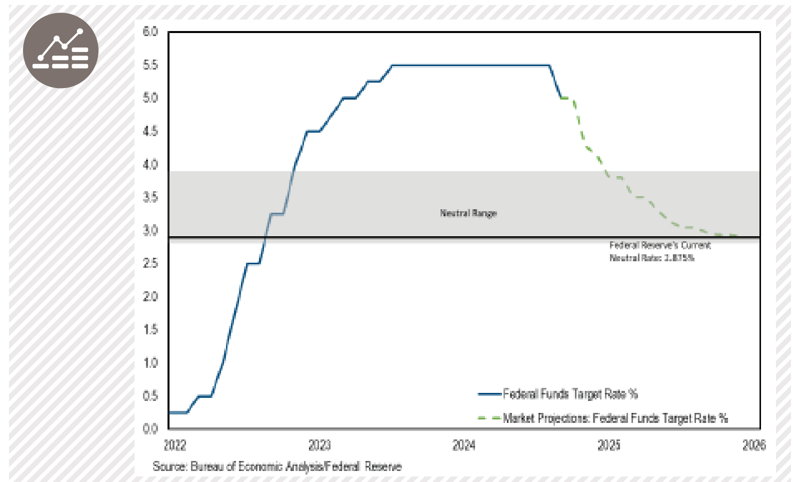
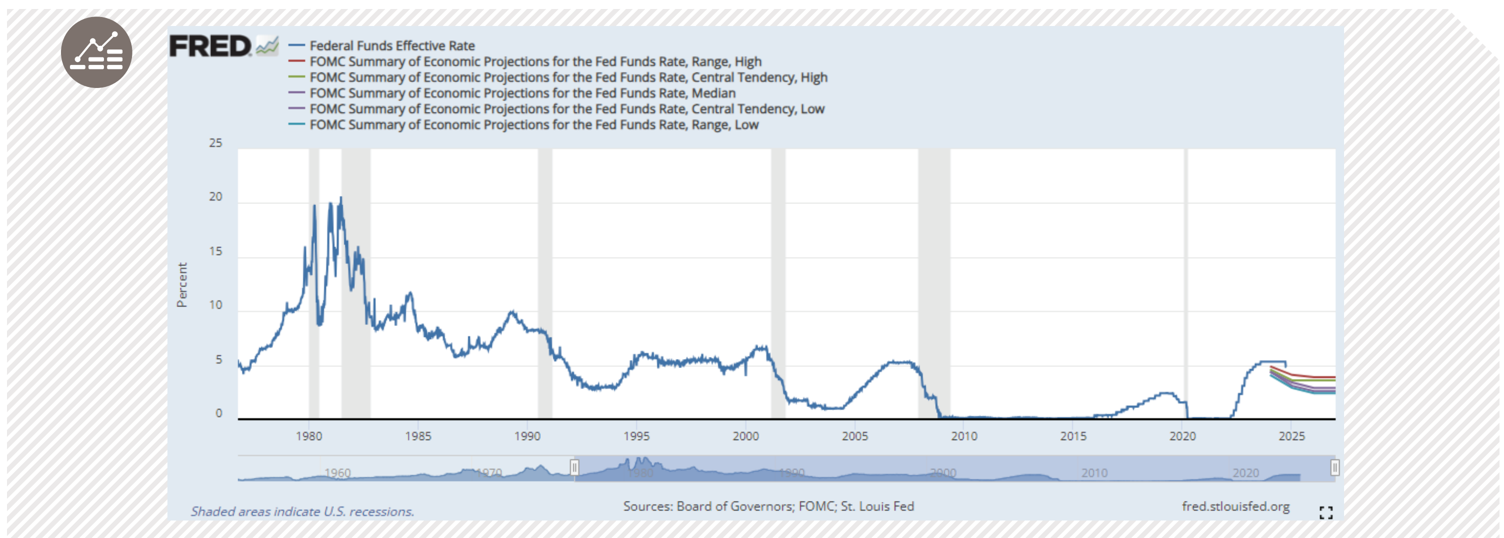
Interest Rate Regime Change

We are using this issue of our quarterly newsletter to focus on the recent shift in Federal Reserve ("Fed") policy and its impact on markets. The Fed has what is commonly referred to as a dual mandate – 1) keep prices stable (minimize inflation) and 2) maximize employment. And while the inflation component has been the clear focus of that dual mandate since the most recent rate-hiking cycle began in 2022, the Fed signaled a shift at its September meeting with a 0.50% interest rate cut (see chart below) to a range of 4.75%-5.00% from a range of 5.25%-5.50% – the first of what is expected to be multiple rate cuts in the coming months and quarters.

While the inflation finish line has yet to be crossed, the rate cut acknowledges the Fed's view that enough meaningful progress has been made as data continues to trend in the preferred direction. The recent move toward a normalized yield curve with the difference between 2- and 10-Year Treasury yields turning positive for the first time since July 2022 is another trend shifting in the preferred direction. The Fed's September rate cut represents the shift in policy that now puts the focus on ensuring unemployment remains in check – the second part of the dual mandate – with an economic soft landing still the overall goal.



What does this mean for markets? While continued economic growth and a soft landing are the base case, we cannot ignore history and the inevitable fact that the economy goes through cycles. To that end, history shows (see chart below) that recessions typically happen after the Fed starts to ease monetary policy. The chart below illustrates the trajectory of the effective Fed Funds Rate during the past 50 years and the shaded vertical areas indicate recessionary periods. A notable exception to rate cuts preceding a recessionary period was in the mid-1990s, at the same time the internet was the newest game-changing technology. It is possible to draw a parallel to today with the rise of Artificial Intelligence and the associative investments and anticipated benefits companies are participating in – perhaps it will play a similar role in staving off the next downturn?



We anticipate increased market volatility for a variety of reasons including ongoing debate about the pace of rate cuts, the U.S. election cycle, labor disputes, and geopolitical uncertainty. Market volatility, while uncomfortable, inevitably provides the astute investor with opportunities. In the short term, as rate cuts continue, money that has accumulated in cash and cash equivalents due to relatively attractive short-term rates over the past couple of years will start to be moved to other asset classes such as bonds and stocks. Investments that exhibit strong balance sheets, cash flow, credit quality, and growth potential continue to be favored as we strive to focus on achieving goals and successfully navigating markets regardless of where we are in an economic cycle.

How long should you keep your records?

Generally, a good rule of thumb is to keep financial records and documents only as long as necessary. For example, you may want to keep ATM and credit-card receipts only temporarily, until you've reconciled them with your bank and/or credit-card statement. On the other hand, if a document is legal in nature and/or difficult to replace, you'll want to keep it for a longer period or even indefinitely.

Some financial records may have more specific timetables. For example, the IRS generally recommends that taxpayers keep federal tax returns and supporting documents for a minimum of three years up to seven years after the date of filing. Certain circumstances may even warrant keeping your tax records indefinitely.

Where should you keep your records?

You could go the traditional route and use a simple set of labeled folders in a file drawer. More important documents should be kept in a fire-resistant file cabinet, safe, or safe-deposit box.

If space is tight and you need to reduce clutter, you might consider electronic storage for some of your financial records. You can save copies of online documents or scan documents and convert them to electronic form. Consider keeping backup copies on a portable storage device or hard drive and make sure that your computer files are secure.

You could also use a cloud storage service that encrypts your uploaded information and stores it remotely. If you use cloud storage, make sure to use a reliable company that has a good reputation and offers automatic backup and technical support.

Once you've found a place to keep your records, it may be helpful to organize and store them according to specific categories (e.g., banking, insurance, proof of identity), which will make it even easier to access what you might need.

How long should you keep specific documents?

Records to keep for one year or less:

- Bank or credit union statements
- Auto and homeowners Insurance policies

Records to keep for more than a year:

- Tax returns and supporting documentation
- Mortgage contracts
- Property appraisals
- Receipts for major purchases and home improvements

Records to keep indefinitely:

- Birth, death, and marriage certificates
- Citizenship and military discharge papers
- Social Security card

Keep in mind

The above recommendations are general guidelines, and your personal circumstances may warrant keeping these documents for shorter or longer periods of time.

We're here to help! Please reach out to a member of your Wealth Team if you have questions or would like to discuss additional ways to protect your financial information.

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