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What to watch

Fed ready to set stage for rate hike this year

Adam Shell
@adamshell
USA TODAY

From Wall Street's perspective, an interest rate hike this year from the Federal Reserve is pretty much a done deal. Many investors say Fed chief Janet Yellen will set the stage for a coming hike, perhaps as early as September, when the Fed breaks from its two-day meeting Wednesday.

The coming rate hike is getting a lot of attention, due to the fact rates now are pegged at a historic low of around 0%. Low rates have been cited as a big reason why stock and bond prices have rallied to record highs. Add in fact the last time the Fed hiked rates was in June 2006 — nine years ago — and it's clear why investor anxiety is on the rise.

"We expect Yellen to continue setting the stage for the start of the Fed's tightening cycle later this year," UBS economist Drew Matus told clients in report.

Matus says the market is now pricing in "a bit more than 75% chance" of a rate hike at the Fed's September meeting.

For now, Matus does not expect Yellen to "argue forcefully for or against" a September rate hike, noting there's still a lot of incoming economic data set for release in coming months.

"We believe the Fed is ... comfortable with that view (for a September liftoff) and is cognizant of the fact that there are ample opportunities to reset market expectations before the September meeting," Matus wrote, adding the Fed has additional opportunities in mid-July to update its forecast, with Yellen's "Humphrey-Hawkins" testimony to Congress and at its July meeting.