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What to watch

Fed rate hike likely, but what comes next?

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Get ready for another interest rate hike. The Federal Reserve's two-day meeting ends Wednesday, and Wall Street says it's pretty much a done deal that short-term rates will be raised another quarter point to a range of 1% to 1.25%. The surprise would be if the Fed didn't hike, as investors are placing 99.6% odds that the second rate hike of 2017 will happen at this meeting.

It's no secret the Fed will likely raise rates. So when they do, the news will be anything but new. The headline "Fed hikes rates" is unlikely to be a market-moving event. The expected quarter-point increase, says Kathy Jones, chief fixed-income strategist at

Charles Schwab, is already reflected in asset prices.

What's not priced in is a third hike in 2017. Or the Fed upgrading its inflation forecast. Or it going public with an earlier and more aggressive plan to start paring back its \$4.4 trillion holdings of long-term U.S. Treasuries and mortgage-backed bonds.

Futures markets place less than 30% odds of rate increase No. 3 occurring at the Fed's September meeting and a 43.8% chance a third hike will wait until December. "September is in the cards" if the Fed upgrades its inflation expectations, Jones says.

When it comes to its plans to pare back on bonds it owns, the Fed wants to make sure the market is "ready for it," Jones says.

So it's unlikely the Fed will deviate from its message of doing so "very gradually" and making sure its plans are "well understood."