

# FINANCIAL FOCUS



A Pegasus Newsletter<sup>©</sup>

October 2024

**D**ear friends,

As we move into the final quarter of 2024, we continue to evaluate how the recent Federal Reserve rate cuts are affecting the stock and bond markets and how geopolitical tensions and supply chain issues are adding complexity to global markets. We hope you had a wonderful summer and, as always, please feel free to reach out with any questions or concerns you may have.

By, Jaysen Bohrod, CFA

## **The Fed Funds Rate and It's Effects on the Economy**

The federal funds rate is the interest rate at which banks lend reserve balances to other banks overnight. It is a very important tool that the Federal Reserve uses to control monetary policy in the United States, and impacts a wide range of other interest rates across the economy. This includes the rates you pay on credit cards, personal loans, mortgages and interest you receive in savings accounts.

The most direct effect of changes in the fed funds rate is on short term interest rates. Banks rely on overnight funding to maintain reserve balances and the cost of that funding is tied to the fed funds rate. When the Federal Reserve changes the rate, it affects the costs the banks have on these loans, and in turn, the rates that they charge customers to borrow money.

The fed funds rate indirectly affects long term interest rates in addition to shorter term rates. When the Fed changes the fed funds rate, it affects the outlook for economic growth and inflation, which in turn, affects investors demand for bonds. If the Fed raises the fed funds rate, it signals that there are concerns of inflation rising or an overheating economy and will prompt bond yields to rise. Investors will demand higher returns on bonds to protect against inflation and banks will pass their increased costs in the form of higher loan rates, which includes personal loans and mortgages. In contrast, if the

Fed lowers the fed funds rate, it becomes cheaper for banks to maintain reserves, lowering borrowing costs for consumers. It also leads to lower yields on Treasury bonds, which allows lenders to offer lower rates on loans like fixed mortgages.

Changes in the fed funds rate has significant effects on the stock market as well. When interest rates rise, it becomes more expensive for companies to borrow money to finance operations. Higher borrowing costs means that more revenue is allocated to paying down debt, which can lead to investors adjusting expectations for growth and profitability. Conversely, when rates decrease, companies get a boost to profits by reducing the cost of debt and growth expectations rise.

Discounted cash flow (DCF) models are commonly used by investors to estimate the value of a company. In a DCF model, future cash flows are discounted back to a present value using a discount rate that is influenced by the prevailing interest rates. As interest rates rise, the discount rate increases, reducing the present value of the future cash flows and the intrinsic value of the stock. When interest rates fall, a lower discount rate is used, which will give the future cash flows a higher present value and increase the intrinsic value of the stock.

While there are many factors that affect interest rates directly or indirectly, the fed funds rate is a major component in determining borrowing costs.



## NUMBERS TALK

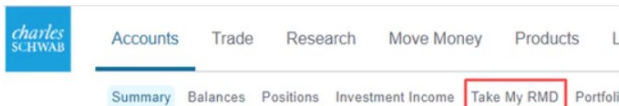
- US national debt.....\$35.691T
- Annual interest accrued on national debt.....\$964B
- Total dollar amount owed in Federal and Private Student Loans.....\$1.74T
- Percentage of new car sales that are expected to be EVs in 2024 in the US.....~8%
- Global equity market value.....\$116.4T
- US Federal debt to GDP ratio.....124.32%

## QUALIFIED CHARITABLE DISTRIBUTIONS

If you are 70 ½ or older and donate to qualified charities, you can make a Qualified Charitable Distribution (QCD) directly from your IRA. If you are 73 or older and have a Required Minimum Distribution (RMD), the QCD donation can count towards your RMD, but not as taxable income. The important thing to remember is that the QCD must occur first each year, before any additional RMDs or other distributions. The donation must also be paid directly from your IRA to the charity to qualify as a QCD. Keep your donation receipts and be sure to let your accountant know it was a QCD. If you would like to take a QCD, please contact Pegasus.

### CLIENT ONLINE RMD CENTER

You can now check your RMD status online at [www.schwaballiance.com](http://www.schwaballiance.com). Click on the “Accounts” tab, then the “Take My RMD” Sub-Tab.



### HOLIDAYS / OFFICE CLOSED

November 28<sup>th</sup> & 29<sup>th</sup>  
December 25<sup>th</sup>  
January 1<sup>st</sup> & 20<sup>th</sup>

### CHARLES SCHWAB HAS A NEW MAILING ADDRESS

You can use this address when mailing in a check for deposit or sending in original, notarized Schwab forms.

**Regular Mail:**  
Charles Schwab  
P.O. Box 2380  
Omaha, NE 68103

**FedEx/UPS:**  
Charles Schwab  
200 S 108<sup>th</sup> Ave.  
Omaha, NE 68154



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Exclusive of charts

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