The Federal Reserve met this week with Fed Chairman, Jerome Powell, giving a press conference on Wednesday. At the press conference Jerome Powell offered some insight into what the Fed is thinking and how they will handle the job of managing the U.S. economy going forward. For years the Fed has been stating that full employment and inflation above 2% are what would be required to increase rates. He acknowledged that both criteria have been fulfilled and now is the time to start increasing.

During Wednesday's press conference Powell indicated the Fed would potentially start raising rates as soon as mid-March. While he used language like "I think there's quite a bit of room to raise interest rates without threatening the labor market." He also suggested the Fed wasn't likely to provide much in the way of forward guidance. When he was asked if the planned rate hikes would be comparable to the "only gradual" hikes they guided for in 2015, Chairman Powell stated this economy is different from the economy then with tight labor markets and higher inflation.

With this news the markets started to sell off with the Dow and S&P, both being positive going into the meeting and subsequently closing. The reason for this sell-off in equities and, especially growth equities, has to do with how a stock is valued. To properly value a stock, or any business for that matter, you look at the present value of its cashflows. With growth stocks, the bulk of these cashflows are in the distant future because in the short to medium term the business continues to reinvest earnings back into itself. As interest rates move up this has a negative impact on the value of future cashflows, specifically those farther out.

This may present a good time to re-evaluate your portfolio. We recommend looking for best-in-breed companies with a proven track record of being able to increase prices. These are the companies that are going on sale right now and can be purchased at a discount. Things to be cautious of are newer companies with higher valuations and high labor costs.