**Northern Trust | Bob Browne: Goldilocks Economy: The Fed Wants it Just Right**

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The Fed seems to have hit a sweet spot last week. And, once again, the market's great love, Goldilocks, is the belle of the ball. Will this perfect romance of not too hot and not too cold last? After ceding center stage to President Trump for the past few months, Fed chair Janet Yellen temporarily seized center stage once again.

She performed the script just the way the market wanted. She and the Fed provided expectations of continued economic growth; inflation just where they want it; and promises of modest and predictable interest rate hikes. It was the perfect feel-good movie and the audience loved it.

But this is not meant to be a cynical observation. The fact is, we, too, expect inflation to be at just the right level, while growth around the world-- not just in the US-- maintains a healthy pace. This is indeed good for risk assets.

And so the positive performance in equities thus far is justified. The market had fully discounted the Fed's increase in the target Fed funds range by 25 basis points. While some are saying that the FOMC statement and Yellen's comments were more dovish than expected, we should concentrate more on the actual rate hike itself and the Fed expectations that there will be at least two more hikes this year.

And so the normalization of interest rates continues. And the Fed now is also talking about what to do with its balance sheet. These facts are more important than any perceived tones of dovishness or hawkishness. For the first time in a while, the Fed's expected policy actions are well aligned with the market's own expectations and the consensus view of the economy.

This is indeed-- dare I say it-- a Goldilocks situation for investors. So what does this mean for investors? We think the positive growth narrative that took off after President Trump's election not only continues but is now expanded globally. We recently upgraded our growth forecast for emerging markets and, as a result, recommended an increase allocation to emerging market equities.

We funded this by cutting back our successful overweight in US high-yield bonds and we are taking profits there. We remain fully invested in risk assets with overweight allocations to US equities, emerging market equities, and natural resource equities. We expect bond yields to head higher. And so we continue to fund these equity positions at a more modest overweight and high-yield by being underweight investment grade bonds.

We are still monitoring our two primary risk scenarios of unexpected inflation and a legislative logjam in Washington. But we actually see more upside risk from our very positive base case of continued global growth and contained inflation.

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