

## **Royce Funds Portfolio Manager Believes the Fed Decision Removes Some Uncertainty in a World Rife with Contradictions**

*While the Initial Raise Might Spook Some Investors, US Stocks Look Good, Especially In a Global Context*

**(New York, NY December 17, 2015)** -- The Fed has followed through on previous signals and raised rates 25 basis points, the first increase on the part of the US Central Bank in a decade. According to Royce Portfolio Manager Charlie Dreifus, the move signals that the US economy is off life support and on the road to normalcy.

The Fed's decision comes on the backdrop of significant uncertainty worldwide, led by low oil prices and weakening commodity demand. This tepid outlook thus poses dilemmas for the globe's central bankers, who are trying to bring about inflation.

In fact, the tepid outlook is possibly more significant than the actual rate hike. "The real impact of the hike is very likely to be de minimis because the rest of the world is holding steady," he said.

But the removal of uncertainty could cause some previously delayed economic activity to kick in that could very well lead to inflation in the US, according to Mr. Dreifus.

"I expect the economy to improve in the aftermath of this hike, primarily because it reduces uncertainty and indecision, at least here in the U.S. An example is potential home buyers who will now expect mortgage rates to rise," said Mr. Dreifus.

Mr. Dreifus noted that this outcome is far from certain, particularly because the outcome might be a more expensive dollar, which could further depress commodity prices and raise the specter of global inflation. He noted that with the Eurozone version of QE already in effect and rates near zero, there simply aren't any monetary tools left to stoke global demand should steeper commodity price declines materialize.

However, the Fed seems to believe that rising wages means that inflation in the U.S. has bottomed. Mr. Dreifus agrees that the US is in appreciably better shape than the Eurozone. But he cautioned, "If we don't see more evidence of steady wage growth, especially if paired with falling commodity prices, then the Fed has to think about whether or not they made a mistake and if subsequent increases need to be postponed indefinitely."

Still, for longer-term investors, Mr. Dreifus believes that US equities are still the most attractive option.

"While the increase might initially spook some investors, I think there will soon be a realization that U.S. stocks still look fairly attractive, especially in a global context. For most investors with

longer-term horizons, equities remain the preferred option, though perhaps marginally less so than a few months ago.”

### **About Charlie Dreifus**

Charlie R. Dreifus manages the firm’s Special Equity mutual funds that attempt to combine classic value analysis, the identification of good businesses, and accounting cynicism. In 2008, he was named *Morningstar's Domestic-Stock Fund Manager of the Year*.

Prior to joining Royce in 1998, Mr. Dreifus was a General Partner and Managing Director and a Limited Managing Director of Lazard Freres & Co., LLC. He was also the Portfolio Manager of Lazard Special Equity Portfolio, formerly Lazard Special Equity Fund and Special Equity separate accounts. Prior to that, he was employed by Oppenheimer & Co. as a Limited Partner and as the manager of Quest For Value Fund (from May 1980 to November 1982) and by Oppenheimer Capital as an Executive Vice President.

Mr. Dreifus holds a bachelor's degree from the City College of New York/Baruch School and a Masters of Business Administration from Baruch College. He is a CFA® charterholder.

### **About Royce & Associates, LLC**

For more than 40 years Royce & Associates, LLC, investment adviser to The Royce Funds, has used a disciplined, value-oriented approach to select micro-cap, small-cap, and mid-cap companies. We have a seasoned staff of investment professionals, most with more than 15 years of experience. Chuck Royce, the firm's founder and a pioneer of small-cap investing, enjoys one of the longest tenures of any mutual fund manager. Royce & Associates, LLC is a wholly owned affiliate of Legg Mason Inc. (NYSE: LM).

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**Federal Reserve Board** (“Fed”) is responsible for the formulation of policies designed to promote economic growth, full employment, stable prices, and a sustainable pattern of international trade and payments.

**Basis Point** is one one-hundredth of one percent (1/100% or 0.01%).

**Gross Domestic Product** (“GDP”) is an economic statistic which measures the market value of all final goods and services produced within a country in a given period of time.

**Quantitative Easing (QE)** refers to a monetary policy implemented by the Federal Reserve in which it increases the excess reserves of the banking system (supply of money) through the direct purchase of U.S. Treasury securities.

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