

The Federal Reserve's Interest Rate Increases and Their Effect on the U.S. and Global Economies under the Covid-19 Pandemic

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Abstract: This paper delves into the successive Fed rate hikes that began in March 2022 and their far-reaching impact on the domestic and global economy. The paper primarily examines the reasons behind these rate hikes, focusing on their response to the problems caused by the COVID-19 pandemic, particularly unemployment and inflation trends. The pandemic triggered widespread lockdowns, leading to severe supply chain disruptions and economic downturns. During this period, unemployment rates rose sharply and reached historic levels. Central banks worldwide had adopted loose monetary policies to stabilize economies in the short term. However, this also raised the risk of persistent inflation. Fiscal stimulus, intermittent interest rate cuts, and a raft of bailouts, such as the CARES Act, have added complexity to the economic landscape, affecting various sectors and necessitating higher interest rates to restore pre-pandemic stability. Disruptions in global supply chains played a key role in stoking inflationary pressures, eroding consumer purchasing powers, and highlighting the urgency for the US Federal Reserve to intervene by adjusting interest rates. Assessing the impact of these rate hikes on stocks shows a resilient market that remained optimistic about the U.S. economic recovery. In addition, the study outlines the impact of these rate hikes on foreign exchange markets, international capital flows, emerging markets, trade dynamics, and global competitiveness.

Keywords: Covid-19, Federal Reserve, economic, interest rate

1. Introduction

As of July 26, 2023, the Federal Reserve increased its benchmark interest rates for the 11th time since March 2022, a series of rate hikes commonly referred to as the "Fed Rate Hike." Due to the US dollar's dominance as the principal international reserve currency, this change in monetary policy by the Federal Reserve has a huge impact on the internal economy of the United States and the worldwide economic landscape.

This paper explores several factors that led to the Fed Rate Hike, including COVID-19 and its consequences: monetary policy and interest rates, fiscal subsidies and periodic interest rate cuts, and supply chain disruption. Inflation also contributed significantly to the Fed's decision-making, as CPI increased during COVID-19. At the same time, the Ukrainian-Russian War also created turbulence in the energy market as a cause of the Fed Rate Hike from March 2022 to July 2023.

This essay also discusses the effects of the most recent Fed rate hike on the stock markets of developed and emerging nations and the global foreign currency market.

This study aims to provide an exhaustive account of the Fed Rate Hike's status and nuances in the post-COVID-19 era. By evaluating the causes and effects of these successive rate hikes, this paper offers valuable insights into the complex interplay between monetary policy adjustments and economic stability, both within the United States and on the global stage.

2. Causes

The Federal Reserve was established in 1913 to stabilize the US financial system [1]. The Federal Reserve did not often increase interest rates in its early days because the US economy was relatively stable. During the Great Depression in the 1930s, the Federal Reserve used monetary policy to combat economic downturns, including decreasing interest rates. However, in the late 1930s, due to deflation and the Great Depression, the Federal Reserve began gradually increasing interest rates [2]. From 1987 to now, due to the near-zero lower bound of interest rates since the subprime crisis, or Global Financial Crisis (GFC), in 2008 [3], quantitative intermediary targets have appeared again in a new form [4], and multi-objective writing balance has become a long-term issue. The monetary policy of the Federal Reserve after 2020 mainly solves the two problems of employment and inflation, while the interest rate hike behavior of the Federal Reserve from 2022 to now is to control the problem of stable jobs and excessive inflation. As of July 26, 2023, the Federal Reserve increased its benchmark interest rates ("Fed Rate Hike") 11 times in a mere 16-month period. The Fed's interest rate increase affects the domestic economic situation in the United States. Due to the U.S. dollar is an international currency, it also drives changes in the global economy. Therefore, the following will discuss the causes for the Federal Reserve's recent interest rate hikes from 2021 to the present based on the unemployment and inflation caused by the epidemic environment.

2.1. Covid-19 and Its Consequences

The first cause is COVID-19 (explain why COVID-19 is special). The lockdown during COVID-19 has led to a series of supply chain disruptions and an overall economic downturn (Figure 1).

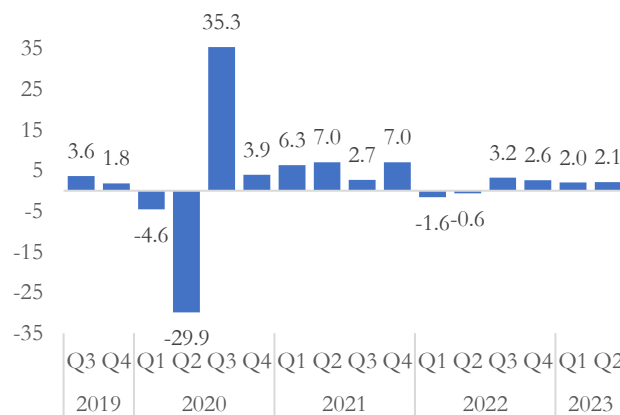


Figure 1: Real GDP: Percent change from preceding quarter 2019-2023.

Data source: U.S. Bureau of Economic Analysis. (2023, August 30). *Gross Domestic Product, Second Quarter 2023 (Second Estimate) and Corporate Profits (Preliminary)*. U.S. Bureau of Economic Analysis. <https://www.bea.gov/news/2023/gross-domestic-product-second-quarter-2023-second-estimate-and-corporate-profits>

Photo credit: Original

In the second quarter of 2020, real GDP growth was significantly negative, which can explain the decline in the general economic level of the United States. This period was the most rampant period of COVID-19, in which People had no means to cope with the unknown virus and even marched, rioted, and went on strike over whether to wear masks. The chaotic situation led to a sharp negative growth of real GDP. The epidemic also dealt a severe blow to the American labor force. Due to the mutual influence of real GDP and the unemployment rate, the unemployment rate also skyrocketed to 14.7% of the labor force in the same period (Figure 2), the highest unemployment rate in U.S. history. The chaos brought by the pandemic made people physically and mentally unable to work, leading unemployment rates to soar. The Bureau of Labor Statistics reports that in April 2020, the unemployment rate rose to 14.8%, the highest level since 1948 [5].

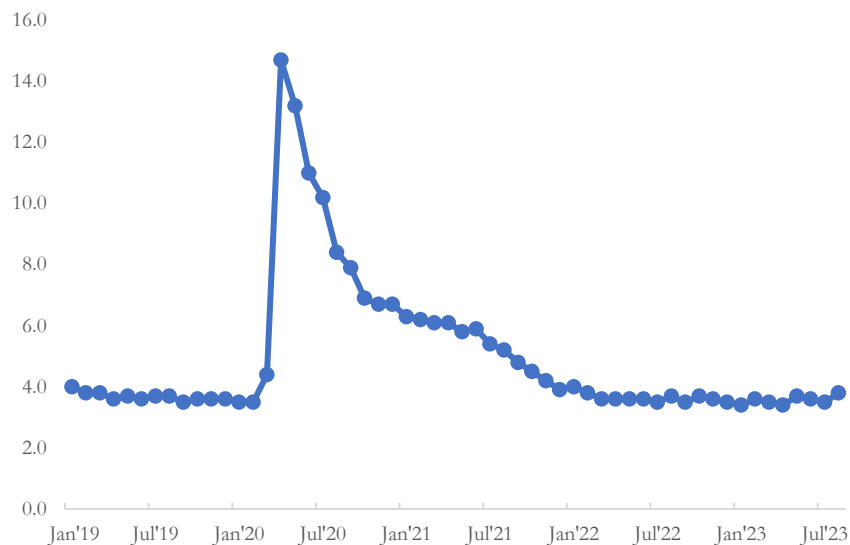


Figure 2: Unemployment rate, seasonally adjusted, from January 2019 to August 2023.

Data source: U.S. Bureau of Labor Statistics Beta Labs. (2023, August). *Labor Force Statistics from the Current Population Survey*. U.S. Bureau of Labor Statistics.

<https://beta.bls.gov/dataViewer/view/timeseries/LNS14000000;jsessionid=290EE57EFAFBA968D6026F24ABB979BB>

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2.1.1. Monetary Policy and Interest Rates

Central banks adopted accommodative monetary policies, lowered interest rates, and provided large amounts of liquidity to respond to many countries' economic shocks caused by the pandemic and high unemployment levels. While these policies helped stabilize the economy in the short term, they increased inflation risks in the long term. The fourth quarter of 2021 experienced one of the most accommodative monetary policies since 1972. According to estimates from the Congressional Budget Office, by the third quarter of 2021, the US economy had fully rebounded, exceeding its potential by 1.4% in the fourth quarter of the same year. Meanwhile, monetary policy settings will remain accommodative [6]. It seemed necessary to evaluate the balance between monetary policies and inflation control.

2.1.2. Fiscal Subsidies and Periodic Interest Rate Cuts

Fiscal stimulus is a legislative tool the government uses to stimulate economic activities by increasing spending, reducing taxes, or taking other measures. During the pandemic, the United States' primary tool has been the Coronavirus Assistance, Relief, and Economic Security Act (CARES Act) [7]: a significant piece of legislation passed by the U.S. government in the early days of the pandemic, signed into law in March 2020. The bill includes measures such as direct payments to eligible U.S. citizens and residents for pandemic benefits, unemployment insurance perks, loans and grants for small businesses, and increased funding for healthcare facilities.

Before the passage of the CARES Act in March 2020, the usual unemployment benefits in the United States were provided by individual state unemployment insurance programs. In times of high unemployment where insurance programs were deemed insufficient, the federal government provided additional assistance.

After enactment, the CARES Act enhanced unemployment insurance. The CARES Act expanded unemployment insurance coverage and provided additional unemployment benefits to help people affected by unemployment cope with financial hardship. Two-thirds of unemployed workers received benefits that were more than their lost income, and a fifth received benefits that were at least twice their lost income, thanks to federal aid efforts [8].

For instance, the American Rescue Plan (ARP) was deployed under the Act. Passed in March 2021, the Act provides a series of fiscal stimulus measures to continue supporting economic recovery and vaccine distribution, including direct payments to individuals, increased unemployment insurance benefits, and increased funding for health facilities [9]. They are offering \$1,400 per-person checks, and there's a case on the official website:

An individual earns less than \$75,000, a head of household earns less than \$112,500, and a married couple filing jointly earns less than \$150,000 to qualify for stimulus funds. People who earn more than \$80,000 will receive partial payouts. Each dependent, including college students and seniors listed as dependents, will get \$1,400. For instance, Avery, a Part-time Clerk with an income level of \$25,000, is single and does not have dependents after COVID-19, got \$1,400 checks from ARP.

Thanks to legislative efforts to ease during the pandemic, now that the pandemic is over, unemployment is back to pre-pandemic levels. Therefore, the Fed needs to raise rates to restore the US economy to its pre-pandemic level.

2.1.3. Supply Chain Disruption

The outbreak has caused supply chain disruptions around the world. Many countries imposed lockdowns and restrictions that led to factory closures and traffic disruptions, affecting the production and transport of raw materials, components, and finished products. Disturbances in the supply chain can lead to insufficient supply, which increases prices. Closures and restrictions have affected the productive capacity of enterprises. Some enterprises had shut down, and some had taken measures to reduce production, which has caused a sharp decline in production capacity. This reduced the supply of certain products, creating an imbalance between supply and demand in the market and increasing prices.

2.2. Inflation

After the epidemic monetary policy and cyclical interest rate cut, the high inflation rate led to the deterioration of the purchasing power of money in the United States. Still, people's pocket money did not increase rapidly with the growth rate of the inflation rate. Therefore, the purchasing power of consumers declined rapidly during this period, and the decline in purchasing power meant that the market's liquidity had worsened. As a result, many enterprises could go bankrupt, and their employees

might lose their jobs. After a cycle of rate cuts, the Federal Reserve began to increase interest rates to curb the rapid rise in inflation to stabilize the market and the US economy. Due to the sharp increase in unemployment caused by the epidemic in 2020, the government will intervene to adjust the employment rate by lowering monetary policy from 2020 to 2021. While the unemployment rate was falling, inflation increased and broke through the new 40-year high.

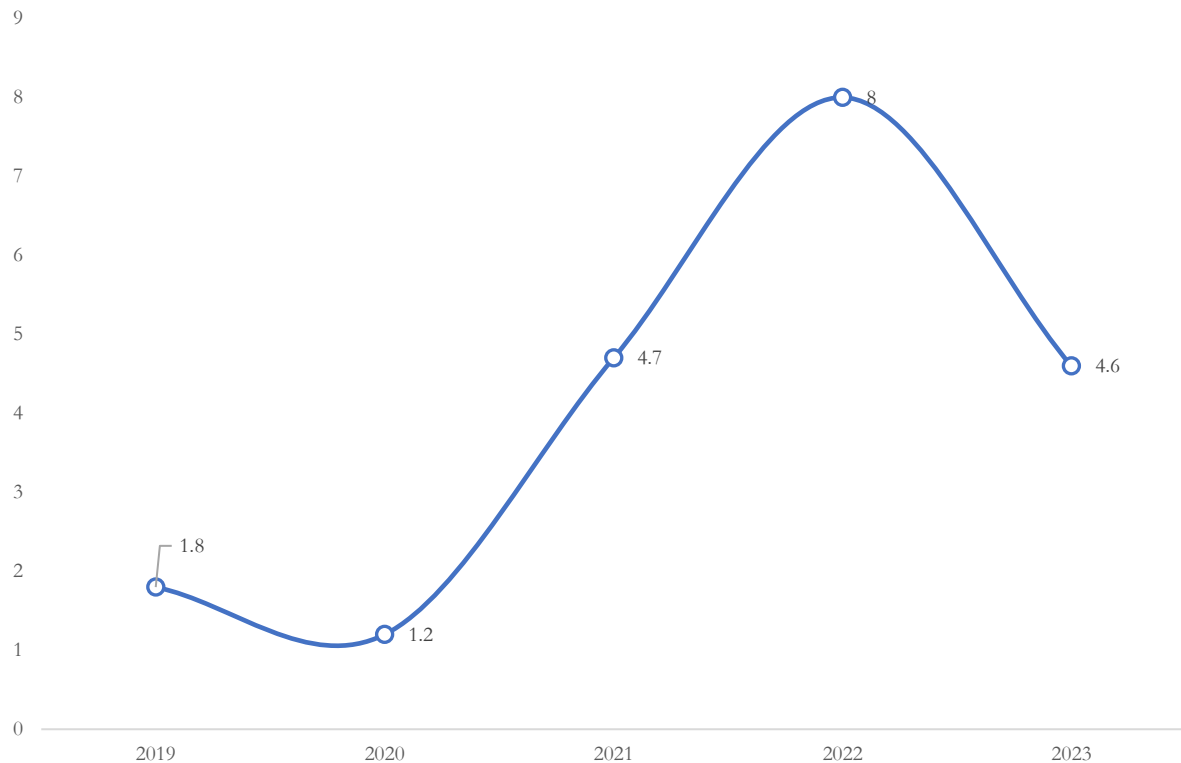


Figure 3: United States Annual Inflation Rates (2019 to 2023).

Data source: U.S. Inflation Calculator. (2023, August 10). *Historical inflation rates: 1914-2023*. US Inflation Calculator. <https://www.usinflationcalculator.com/inflation/historical-inflation-rates/>
Photo credit: Original

As seen in Figure 3, the annual average inflation rate started to increase in 2021 and reached its peak in 2022, 8 percent change on average. Fitzgerald and Nicolini used the NAIRU model to indicate that a 1.0 percentage point increase in the unemployment rate is associated with an approximately 0.3 percentage point decline in inflation over the next year [10]. Since the 2022 meeting of interest rate hikes, the Fed has lowered the inflation rate to under 2.0% [11]. By July 26, 2023, the Fed had gradually raised interest rates 11 times [Table 1] [12]. After going through 11 times, the US average annual inflation rate was 4.6 by August 2023. It was a 4.7% decrease compared to the inflation level in 2021, with a downward trend. Atish Ghosh and Steven Phillips' 1998 study on inflation and growth revealed a statistically and economically significant negative link between the two that held steadfastly at all except the lowest inflation rates. Therefore, the inflation increase directly indicates the US economy's downward trend after the epidemic. In the case of an economic downturn, the Federal Reserve quickly took measures, carried out monetary intervention, and raised interest rates several times to reduce the inflation rate to prevent the continuation of price rises.

Table 1: Fed Rate Hikes 2022-2023: Taming Inflation.

FOMC Meeting Date	Rate Change (bps)	Federal Funds Rate
July 26, 2023	25	5.25% to 5.50%
May 3, 2023	25	5.00% to 5.25%
March 22, 2023	25	4.75% to 5.00%
February 1, 2023	25	4.50% to 4.75%
December 14, 2022	50	4.25% to 4.50%
November 2, 2022	75	3.75% to 4.00%
September 21, 2022	75	3.00% to 3.25%
July 27, 2022	75	2.25% to 2.50%
June 16, 2022	75	1.50% to 1.75%
May 5, 2022	50	0.75% to 1.00%
March 17, 2022	25	0.25% to 0.50%

Data source: Garavuso, P. (2019, August 29). A Response to Freedom of Information Request Dated and Received by the Federal Open Market Committee.

2.2.1. CPI

When the money supply increases [13], it causes the consumer Price Index (CPI) to increase. Figure 4 is the U.S. CPI for ALL Urban Consumers Quarterly data from 2019 to 2023. The CPI rose rapidly from 2020 to 2022, and the annual CPI in 2020 formed a turning point. The following two years, especially 2022, increased by about 8% compared to 2021. In the three years of the epidemic, prices rose rapidly. Meanwhile, the unemployment rate rose rapidly, leading to a sharp decline in people's purchasing power. They could not afford the sudden high prices of products, further inducing a series of economic declines. Therefore, CPI was among the leading causes that pushed the Federal Reserve to intervene by raising interest rates to adjust the status quo and return prices to normal levels

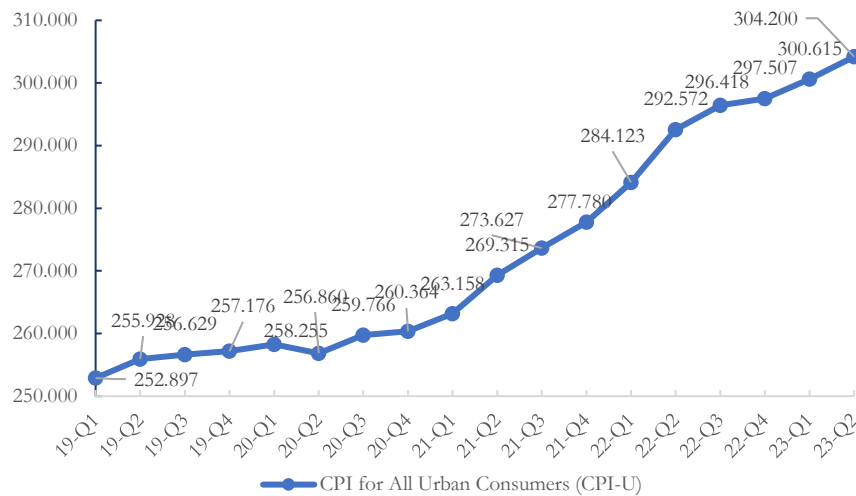


Figure 4: CPI for All Urban Consumers (CPI-U) Quarterly Data (2019 to 2023).

Data source: U.S. Bureau of Labor Statistics. (2023, August). *CPI for All Urban Consumers*.
https://data.bls.gov/timeseries/CUUR0000SA0?years_option=all_years
Photo credit: Original

Since the Federal Reserve began to increase the interest rate in 2022, CPI growth slowed down. As of the first half of 2023, the growth of CPI-U was significantly slower compared with 2019 to 2022 (Figure 5).

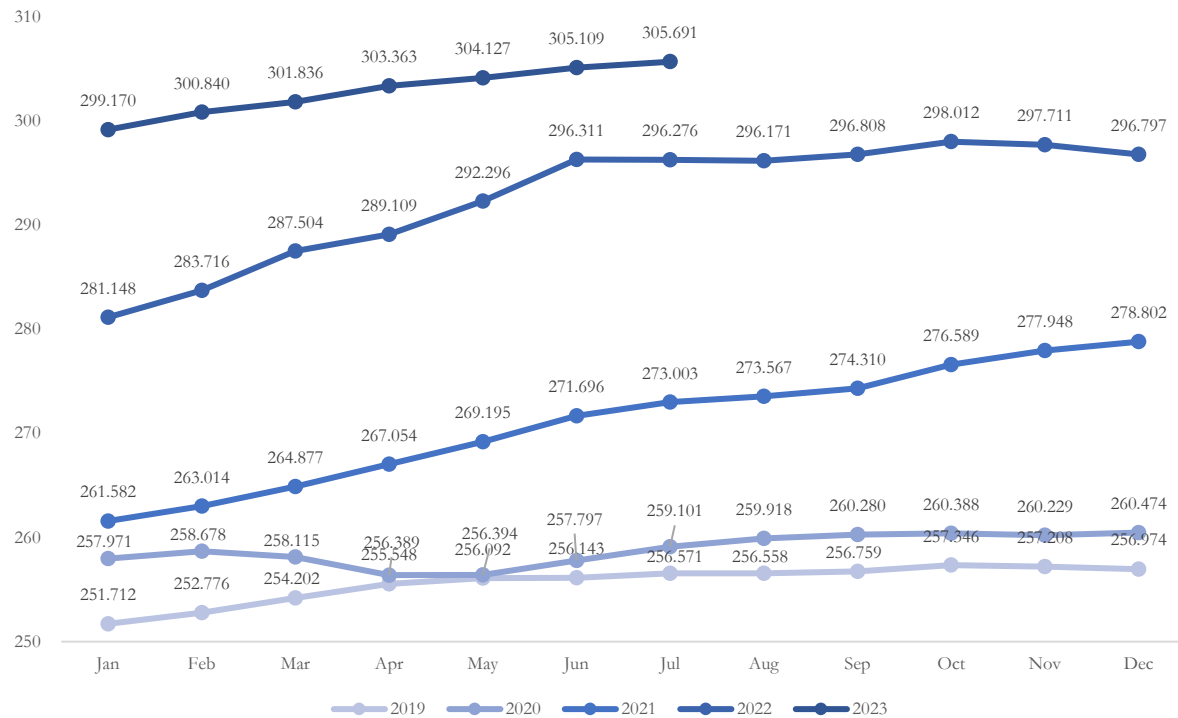


Figure 5: CPI for All Urban Consumers (CPI-U) Monthly Comparison line Chart (2019 to 2023).

Data source: U.S. Bureau of Labor Statistics. (2023, August). *CPI for All Urban Consumers*.
https://data.bls.gov/timeseries/CUUR0000SA0?years_option=all_years
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2.2.2. Ukrainian-Russian War

After the epidemic, the war between Ukraine and Russia also contributed to high prices and high inflation rates, further accelerating the rise. Dame DeAnne Julius, a Senior Adviser at the Global Economy and Finance Programme, mentioned in an interview that many traditionally traded items, particularly agricultural goods, were unavailable on the market due to the Russian invasion of Ukraine [14]. As a result, the prices increased due to a lack of supply. This price change was particularly profound in energy markets, as the war and related sanctions interrupted the supply chain for most countries relying on Russian gas and oil [15]. As the war progresses, energy demands will likely increase further, pushing energy prices even higher. These fluctuations in energy and other markets eventually worsen the inflation problem.

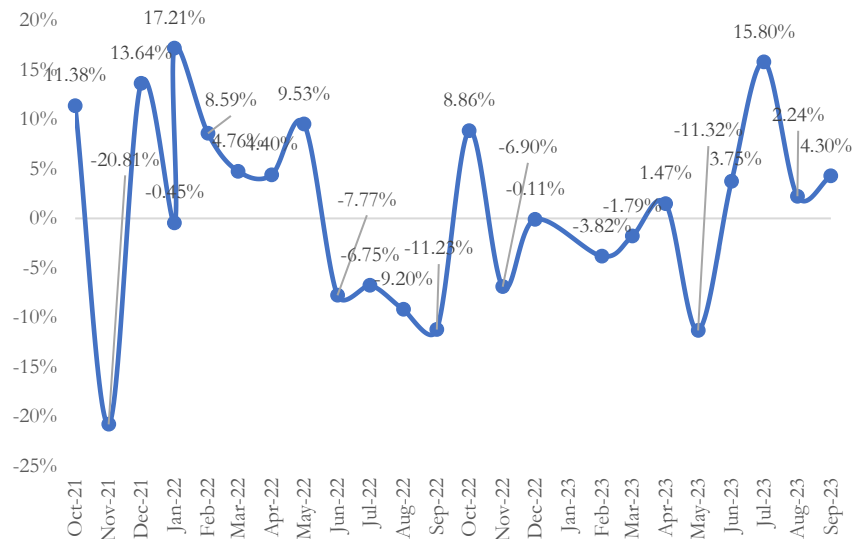


Figure 6: Change % of U.S. Gas Price (Oct.2021 to Sep.2023).

Data source: Investing.co. (2023, September 9). *Crude Oil WTI Futures Historical prices*.

Investing.com. <https://www.investing.com/commodities/crude-oil-historical-data>

Photo credit: Original

3. Stock Market Effects

Following the news briefing regarding the Fed rate rise, US markets surged [16]. The S&P 500 posted its best January in four years on the first day of February 2023 [17]. From March 2022 to July 2023, the cumulative interest rate increased from 0.25% to 5.25% (Table 1). During this time, the stock markets of developed countries like the United States and those of developing countries like China all began to experience large-scale changes due to the interest rate increase of the Federal Reserve.

3.1. Developed Country: U.S. Market

As the Federal Reserve increased its interest rates by 25% on December 14, 2022, the U.S. stock market rose shortly after [17]. Short-term fluctuations occurred for S&P 500 index, closing 1.1% higher [18]. The initial reaction to the Fed's rate hike, which began in March 2022, was a sharp decline in the S&P 500 index, which stabilized a bit in May, continued to decline in June, and returned to the index levels of April and May in July. However, after falling to the lowest point in 2022 in September, the S&P 500 index began to recover sharply. After falling and floating in December, it rose steadily in 2023, exceeding the index level before the Fed Rate Hike. As seen from Figure 7, since the beginning of the Fed Rate Hike, the fluctuations of the S&P 500 index were sharp, but the overall trend was upward. While the S&P 500 index is widely considered a bellwether representation of the U.S. stock market and bellwether stock is regarded as a leading indicator of the economy's direction, these changes could be signified the U.S. economy was recovering and rising [19].

After the 11th consecutive rate hike by the Federal Reserve, U.S. yields fell under the condition that global equities were largely flat, even though the price of the S&P 500 index is gradually rising. The benchmark overnight interest rate was at its highest point since the 2007–2009 global financial crisis, ranging from 5.25% to 5.50% [20]. After the Fed decided to raise rates, Treasury yields decreased in choppy trade. The yield on a 10-year Treasury note decreased to 3.865 percent [21],

while the yield on a two-year note (which often represents expectations for interest rates) declined to 4.8443 percent [22].

In relation to major currencies, the dollar retreated a little. The US dollar index fell 0.316%, while the euro rose 0.33% to \$1.109. Oil prices decreased as a result of data showing a slower fall in U.S. crude stocks than anticipated [23]. While US West Texas Intermediate (WTI) lost 1.1 percent to \$78.78, Brent oil futures dropped 0.92 percent to \$82.92 per barrel. Gold increased when the currency and bond rates declined. Safe-haven gold gains mean that investors are judging that the current series of interest rate increases need to seek to buy Safe Haven assets to avoid possible future risks. U.S. gold futures increased 0.50 percent to \$1,968.90 an ounce, while spot gold increased by 0.5 percent to \$1,973.53 per ounce. In other words, from the perspective of the US stock market, investors believed that the risk of interest rate hikes by the Federal Reserve was still worth careful consideration. Even after the Fed Rate Hike, inflation and other related data become precautions. Still, its sensitivity is much more significant for the investment and stock market than other data. U.S. stock market data would fluctuate until the Fed stops raising interest rates.

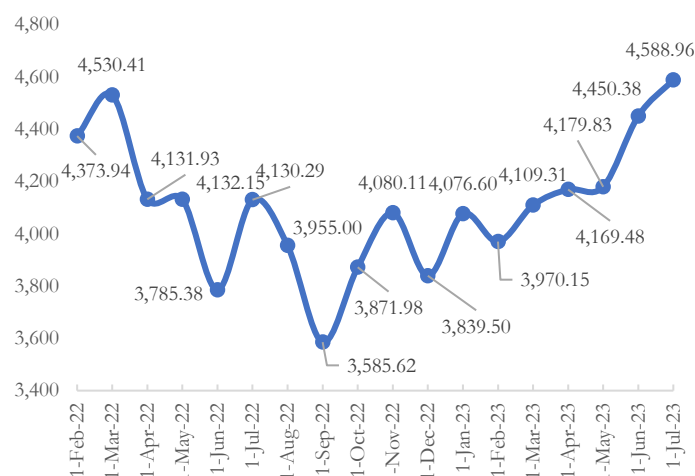


Figure 7: S&P 500 Monthly Close Price 2022 Feb. to 2023 Jul.

Data source: Yahoo! (2023a, September 8). *S&P 500 (^GSPC) historical data* [Data set]. Yahoo! Finance. <https://finance.yahoo.com/quote/%5EGSPC/history?p=%5EGSPC&guccounter=1>
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3.2. Developing Country: China Market

The effect of continuous Fed Rate Hikes was reflected in the 10-year Treasury bond yield of the United States, which is explained in 3.1. In addition, the rise and fall pattern of the Chinese 10-year Treasury bond yield from March to July 2022 exhibits a poor association with the U.S. 10-year Treasury bond interest rate from the influence of trade emotion [24]. Even trading sentiment favoring cautious holdings of Chinese government bonds will rise as U.S. yields rise [24].

After the Fed raised interest rates periodically, the most significant impact on developing countries was capital outflows. The Fed Rate Hike had rendered the U.S. market more promising, attracting Chinese investors to withdraw from local stocks and flood into the U.S. market. The need for more domestic capital thus arose. To cope with the pressure of capital shortage, the central bank increased the circulation of money, which means the money in people's hands will depreciate to a certain extent. Such a reaction led to a lack of financial support for the Chinese and bearish stock markets. As Li

Menglin argued during the 2016 Fed Rate Hike period, similar capital outflows would adversely affect China's use of foreign capital for economic development over the long term [25].

The real economy will see less capital investment and higher capital costs caused by the Fed Rate Hike increases. Companies with high debt have to pay more interest, bringing more costs. For example, in the Chinese real estate industry, Hu Sijia (2018) stated that because of the Fed's interest rate hike, the depreciation of the Chinese yuan often led to short-term speculative behaviors among Chinese consumers. The latter are thus more likely to turn to real estate trading, forming an economic bubble. Such economic bubble was characterized by inflated housing prices, posing a significant threat to the Chinese market [26]. However, although the Fed's policy of raising interest rates dramatically impacts Chinese stock prices in the short term, it had negligible impacts in the long run [27]. The negative spillover effect of the Fed rate hike is being transmitted through the exchange rate channel for the Chinese stock market. Since China's stock market is more dependent on China's domestic policies, the Fed Rate Hike did not cause a significant blow to China's stock market during this cyclical interest rate hike.

4. Forex Market Effects

The Fed Rate Hike has a significant impact on the forex market. The US dollar's appreciation [28], economic growth slowing [29], commodity prices falling [29], capital outflows from developing economies [29], and capital inflows from other nations [28] are some of the effects of the Fed rate hike on the currency market. The overall foreign exchange market's responses to the Fed Rate Hike are timely, and no unexpected events will make people unprepared. Still, the continuous multiple interest rate hikes are an inevitable protracted war for the current foreign exchange market.

4.1. Fluctuation in Exchange Rate

Higher interest rates of the Fed usually lead to higher interest rates in the home currency, making it more attractive to hold the home currency. That can cause investors to bring money into their home countries, pushing up the value of their currencies. As a result, a Fed Rate Hike could lead to an appreciation of the U.S. dollar, especially as other central banks maintain relatively loose monetary policies.

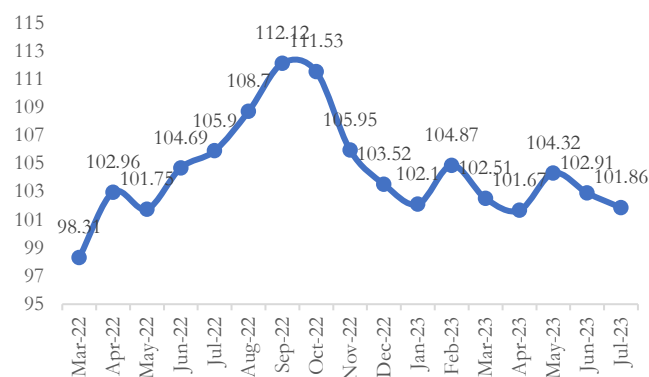


Figure 8: US Dollar/USDX - Index - Cash monthly change (Mar.2022 to Jul.2023).

Data source: Yahoo! (2023b, September 8). *US dollar/USDX - index - cash (DX-Y.NYB) historical data*. Yahoo! Finance. [https://finance.yahoo.com/quote/DX-](https://finance.yahoo.com/quote/DX-Y.NYB/history?period1=1646092800&period2=1690848000&interval=1mo&filter=history&frequency=1mo&includeAdjustedClose=true)

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Photo credit: Original

From March 2022 [Figure 8], when the rate hike began, the dollar index rose sharply, fell slightly in May 2022 but continued to rise steadily from May to September to a peak of 112.12, and showed an overall downward trend from September 2022 to July 2023. Such a situation may be due to the short-term changes in the capital market after the Federal Reserve announced the interest rate hike, the interest rate rose, and many outflow funds poured into the dollar exchange rate rose sharply. However, long-term market movements stabilize after cyclical rate hikes. Thus, the dollar exchange rate gradually moves toward its pre-rate hike level.

Compared with Figure 8 and Figure 9, the fluctuation trend of the Chinese currency exchange rate against the US dollar is similar. However, from May to August, the exchange rate of the US dollar declined. Still, the exchange rate of the Chinese currency against the US dollar rose, and the RMB began to depreciate due to the Fed Rate Hike. This paper once again explains the impact of the US monetary policy on the exchange rate depreciation in the foreign exchange market.

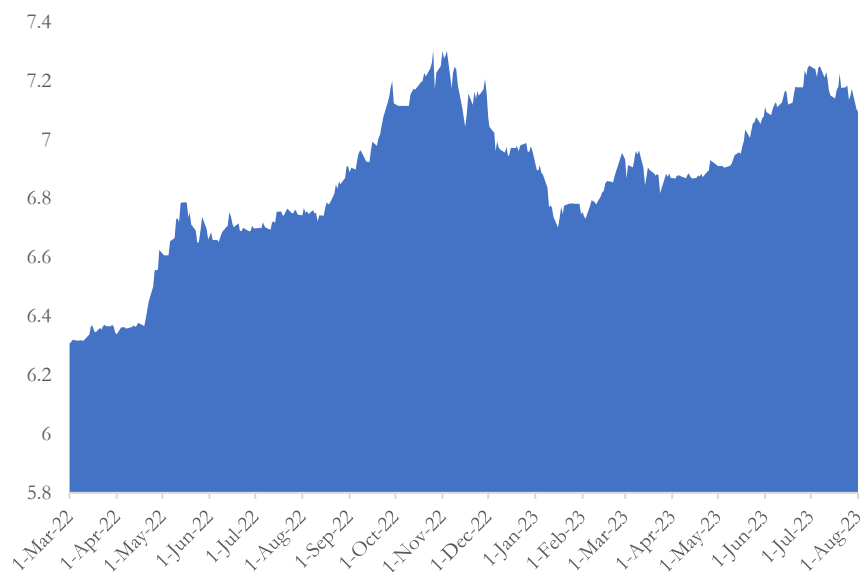


Figure 9: CNY=X Daily Close Price (Mar.2022 to Jul.2023).

Data source: Yahoo! (2023c, September 8). *USD/CNY (CNY=x) live rate, Chart & News.*

Yahoo! Finance. <https://finance.yahoo.com/quote/CNY%3DX/history?p=CNY%3DX>

Photo credit: Original

4.2. International Capital Flow

Higher rates could entice foreign investors to put their money into U.S. financial markets for higher interest-rate returns. Such capital inflows will likely increase demand for dollars, pushing the dollar's exchange rate. However, it could also impact other countries' capital flows and currency exchange rates. As mentioned in 3.2, it is precisely because of capital outflow in the Chinese real estate market that the rise of the US dollar exchange rate affects the depreciation of the Chinese yuan [26].

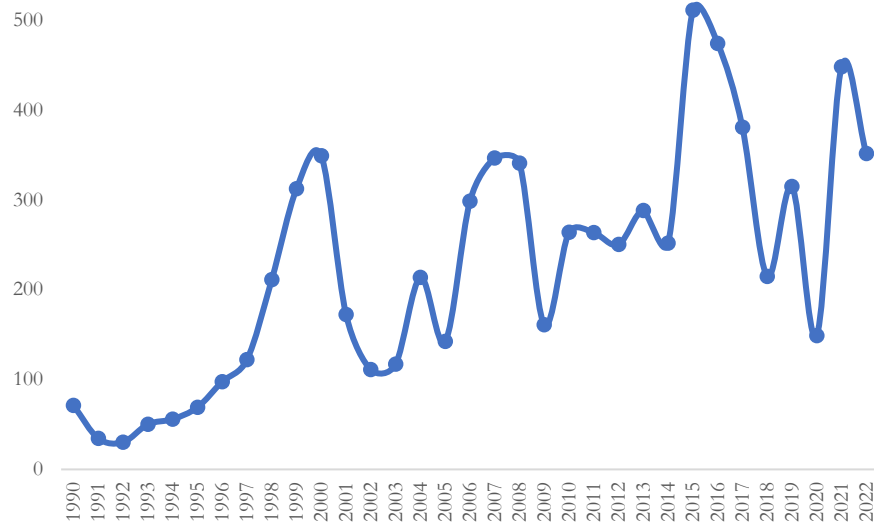


Figure 10: Foreign direct investment, net inflows (BoP, current US\$, Billion) (1990 to 2022).

Data source: World Bank. (n.d.). *Foreign direct investment, net inflows (BOP, current US\$)* [Data set]. World Bank Open Data.

<https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?end=2022&start=1970&view=chart>

Photo credit: Original

Foreign capital inflow to the US in 2020 declined rapidly, the lowest since 2008. In 2020, during the epidemic period, international investors lost confidence in the US market, and FDI net inflow fell sharply, recovered rapidly in 2021, but declined slightly in 2022. After the Fed rate hike announcement in 2022, foreign capital inflows converged to 2016 levels.

4.3. Affecting Emerging Markets and Developing Countries

A Fed Rate Hike could lead to capital outflows from emerging markets and developing countries, as investors may be more willing to put their money in countries like the United States, where interest rates are rising. This could cause their currencies to depreciate, increasing the cost of debt and inflation risk. As described in 3.2, China's real estate industry has received a decline in the impact of asset outflow data [26]. The findings of Jasper Hoek a, Steve Kamin b, and Emre Yoldas are in line with the predictions of state-of-the-art open economies that incorporate financial frictions, which state that increases in interest rates coupled with weaker growth prospects should have a greater impact on EME financial conditions than those brought on by higher growth [30]. The downturn in emerging markets will also hurt entrepreneurs' confidence in the face of interest rates. While the Fed's rate rise has stabilized inflation and consumer markets, it has also hardened the emergence of new markets. If interest rates continue to rise, emerging international industries will likely stagnate. More seriously, human development is likely to be stalled for some time.

4.4. Trade and Competitiveness

The rise in the dollar due to the Fed's rate hike could make US exports more expensive in international markets, affecting US trade competitiveness. That could have an impact on U.S. exports and international trade. The immediate effect is that a stronger dollar makes U.S. exports of goods and

services more expensive on global markets because foreign buyers need to pay more in their currency to buy them. That could lead to declining U.S. exports, as foreign consumers and businesses may be more inclined to purchase lower-priced competitors' products. This can be damaging to export-oriented firms and industries, which in turn affects employment and economic growth.

The indirect effect can be considered when imports become cheaper when the dollar rises, which can cause domestic producers to lose competitiveness in the domestic market because foreign imports are more attractively priced. This could hurt domestic manufacturing and services.

5. Conclusion

This paper analyzes the Fed Rate Hike since March 2022, and its effects on the U.S. and international economy are provided in this article. According to the research, the Fed's decision to boost interest rates was a response to the COVID-19 pandemic's effects on the economy, notably inflation and rising unemployment.

The reason for this successive cyclical rate hike is the COVID-19 pandemic has led to dramatic economic volatility, including rising inflation risks and high unemployment. The Federal Reserve has responded to these challenges by raising interest rates to stabilize prices and the job market.

One factor is the U.S. stock market fluctuated after the Fed rate hike but generally showed an upward trend. This indicates that investors are optimistic about the recovery of the U.S. economy, but it also shows the uncertainty of the market.

Then, the factor is currency markets. The Fed Rate Hike caused the dollar to appreciate, triggering capital outflows from emerging markets and developing countries. This has created challenges for the economies of these countries, especially with its impact on the foreign exchange market and capital flows.

Trade and competitiveness are also affected by Fed Rate Hike. An appreciating dollar can adversely affect U.S. exports and international trade competitiveness, requiring policymakers to take steps to maintain the trade balance.

Finally, it is essential to note that the Fed Rate Hike is based on weighing multiple economic factors and risks. Policymakers might closely monitor market and economic developments to adjust policy as needed. The economy's future direction will be influenced by various factors, and prudent and flexible policies are required to ensure sustained economic growth and stability.

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