Pittsburgh's winners, losers from interest rate hike

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Pittsburgh will have its share of winners and losers with the Federal Reserve's announcement Wednesday of a 25-basis-point interest rate hike — its first increase since June 2006 — but there was no surprise when it came to which sector and companies have the most to gain.

"Banking, banking, banking — one, two and three," said Rick Pierchalski, chairman of Medallion Wealth Management. "Their spread widens and they're still bringing in money on a very cheap basis, but they're able to create a wider spread on long-term loans."

Janet Yellen, chair of the U.S. Federal Reserve.

ANDREW HARRER

PNC Financial Services Group Inc. is Pittsburgh's likeliest candidate to break out the bubbly.

"If you listened to (PNC CEO) Bill Demchak at the Goldman Sachs investors conference last week, $85 million is the number PNC (NYSE:PNC) talked about as boosting revenues and that's pretty much prima facie," said Fort Pitt Capital Group CIO Charlie Smith. "Banks that kept their loan books short in anticipation of higher rates will see immediate benefits."

F.N.B. Corp. and other local community banks could benefit even more than the big banks percentage-wise, according to James Foley, senior vice president and complex manager, Janney Montgomery Scott LLC.

"They're focused on mortgages and loans and in a rising interest rate environment, they can make more money than on the esoteric stuff," Foley said.

Federated Investors Inc., the downtown-based investment firm, is another in the winners' circle

"Federated's (NYSE:FII) money-market funds have been yielding next to nothing and they can get back to returning some kind of yield to customers and reinstate their management fees," said Peter Mathieson, Pittsburgh president at Fairview Capital Investment Management LLC. "Most money-market firms have cut their fees so they can post a margin with rates being so low."

Local financial advisers believe the Fed's action will trigger a rally on Wall Street.

The quarter-point hike, said Daniel Henderson, president and CEO at CooksonPeirce Investment Management, "will give more certainty than there's been recently. Most industries in general will benefit, but I think financials with benefit the most."

Losers are borrowers in a variety of situations.

“Companies that require revolving debt facilities will be at a disadvantage and companies that are of marginal credit quality could find themselves priced out of the market,” said Brian Koble, director of research at Hefren-Tillotson Inc. “Rates could increase to levels they can’t afford and companies with weak finances could be at risk."

Those who stash money in savings accounts will start to earn interest, but traditionally, when the Fed increases interest rates, those banks charge on lending tend to go up more quickly than the rate they offer on deposits.

“Borrowers will feel the pinch before savers enjoy the benefit,” Koble said.

Commodity-related companies like Allegheny Technologies Inc. (NYSE: ATI) and Consol Energy Inc. likely will continue to be hampered, Henderson said.

A September report by JPMorgan Chase & Co. that singled out the 25 U.S. companies with the highest variable rate debt as a percentage of market capitalization included Consol (NYSE:CNX). A rate hike affects companies with variable or floating rate debt faster than fixed-rate borrowers because it resets on a quarterly basis. Fixed-rate borrowers would only deal with a higher rate if they were to refinance or issue new debt.

“Energy companies who have any variable debt are really in a quandary,” Mathieson said. He said several companies in the region were active participants in “this big land grab” in the shale plays just before energy prices plunged.
“Their cash flow’s been cut with the lower prices of natural gas and it’s really a tough time,” Mathieson said. “If interest rates move higher, they’ll be in a situation of paying more for the money they’re not able to repay.”

But the overall consensus on the central bank’s action was that it is so slight that the impact is more psychological than anything else.

“The quarter of a point doesn’t make that big of a difference, it’s the change in the direction of the trend,” Mathieson said.

The Fed indicated that future increases also will be gradual and that, barring any dramatic changes impacting the economy, there will be four 0.25 percent increases in 2016.

“We would have been louder cheerleaders if the Fed had done it in the earlier part of the year,” said Erica Snyder, CEO at Hunter Associates.

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