State of the Economy — September 2016

The stock market was mostly in a holding pattern during the 3rd quarter of 2016. After reaching all-time highs earlier last month, the market indexes are slightly down as we are closer to the big election in November. However, the election wasn't the only issue on investors' minds over the past three months. The ever-changing rhetoric from the Federal Reserve regarding whether interest rates will rise continues to affect the market. The overall uncertainty of the global economy coupled with the internal debate inside the Fed is inhibiting the market from climbing higher.

The Federal Reserve again left interest rates unchanged earlier this month. But, Fed Chair Janet Yellen implied that it wouldn't be long until they raise rates again. She stated that the case for an increase had strengthened. The evidence shows that the economy is almost at full employment and that the economy is healthy enough to move forward with a rate increase. There were even three votes within the Fed against holding rates steady, which was the largest number of dissents in many years. Without any major signs of weak growth, I anticipate the second rate hike in over eight years should occur at the upcoming December Fed meeting.

The summer lull in the stock market seemed somewhat of a surprise after the UK voted to leave the European Union in late June. The economic data in the U.S. released over the last three months reflects a continued trend of tepid growth, particularly in home sales and the manufacturing sector. As a result, the Fed downgraded its forecast for U.S. economic growth. Additionally, the monthly jobs report slowed last month to 151,000 new jobs, which was below economists' expectations. Surprisingly, the lackluster news benefited equity investors as it kept the Fed from raising rates. In turn, stocks have continued to hold steady. Unfortunately, the market may be overly dependent on interest rates which could lead to asset bubbles. Hopefully, the results from 3rd quarter earnings will show the economy advancing at a greater pace.

The influence of monetary policy from the U.S. continues to spread worldwide. In the face of persistently low growth and inflation, Japan's central bank last week kept its negative interest-rate policy intact. However, the bank pledged to modify a bond-buying program to keep the yield for government 10-year bonds at zero. Consequently, the Japanese stock market reacted positively mimicking the U.S. stock market's response to low rates.

With the presidential election set for November, it seems many investors are on edge when it comes to their investments. You can hear people discussing what to do if Trump or Clinton wins on a daily basis. But, as history tells us with respect to the stock market, it may not matter who becomes our President or even what crisis we are facing at that time. Over the last 20 elections controversies and uncertainties existed with one main constant; the stock market has generated a positive return every 10-year period following the start of a new Presidential term. The stock market has overcome wars, recessions, terrorism, assassinations, etc. Will the market react differently over the next 10 years? I wouldn't bet on it.

We all have the power to choose. I hope everyone heads out to vote on November 8th.

Sincerely,

Matthew Bagell, CPA

Bridge Wealth Advisors
Partner

1120 Route 73 | Suite 305 | Mount Laurel, NJ 08054 | www.bridgewealthadvisors.com