“Expect the Unexpected”

By Tommy Williams, CFP®

Late last month investors multi-tasked, pushing both U.S. bond and stock markets higher. In March, the Federal Reserve raised the Fed funds rates for the second time in three months. Typically, we would expect interest rates to rise and bond prices to fall, but interest rates have been falling and bond prices have been moving higher. *Barron’s* reported yields on 10-year Treasuries hit their lowest levels since the election last week.


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Reuters explained there has been a shift in expectations:

“Bonds prices have been boosted in recent weeks by reduced expectations that the Federal Reserve will raise interest rates two more times this year, following disappointing economic data releases. Still, Fed Vice Chair Stanley Fischer said on Friday that two more U.S. rate increases this year remain an appropriate plan for the Federal Reserve despite some weak recent economic data.”

Geopolitical anxiety continued to play a role in market performance, too, causing investors to flee to safe havens, which contributed to bond market strength. Geopolitics didn’t cause U.S. stock markets to suffer, though. *Barron’s* reported:

“Stocks’ on-again, off-again rally was on again [in late April], and it took the Standard & Poor’s 500 index to within sniffing distance of its March 1 record. Climbing in the face of geopolitical anxiety from Paris to Pyongyang is bullish, as is preserving the upward slope of the index’s 200-day average. But there are signs of wavering conviction…”

That wavering conviction is found in investors’ preference for a small group of tech stocks, as well as more defensive sectors of the market. Through mid-April, just 10 stocks accounted for one-half of the S&P 500’s gain during 2017.

A possible motto for 2017: Expect the unexpected.

While “the unexpected” may sound scary, Former Federal Reserve Chairman Ben Bernanke recently said he’s not worried at all about the state of the economy. Instead, his worries lie in the politics of our economy. According to a recent *New York Times* article:

“[Bernanke] is worried that Democrats and Republicans view the health of our nation completely differently. To Democrats, things look dour indeed. To Republicans, things are rosy and looking better all the time. ‘It is really

striking,' he said. 'The election result completely reversed people's views on the state of the economy. Republicans who thought that we were in a dystopia now think things look great, and Democrats, the opposite. And it shows that it isn't all based on an objective assessment of the economy.' Mr. Bernanke's assessment is supported by recent research: A series of new surveys and polls show direct evidence that your politics increasingly define your view of the economy."

Interestingly, Mr. Bernanke also offered his insights on Artificial Intelligence (A.I.), and his concern regarding its impact on future employment:

"You have to recognize realistically that A.I. is qualitatively different from an internal combustion engine in that it was always the case that human imagination, creativity, social interaction, those things were unique to humans and couldn't be replicated by machines,' he said. 'We are coming closer to the point where not only cashiers but surgeons might be at least partially replaced by A.I.' That could be a problem for Democrats and Republicans alike."

It seems that no matter your political views, it'd be wise to prepare yourself for the unexpected. If the 2017 economic outlook has you concerned, perhaps your trusted financial advisor could provide you with some valuable insights.

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