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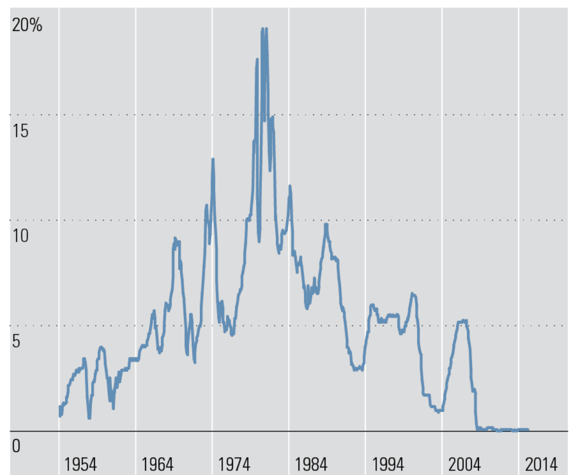
The Fed Kicks the Can Down the Road

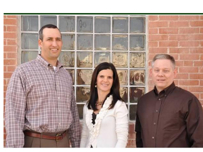
The Federal Reserve decided not to raise rates at its September meeting. While admitting that employment and inflation levels were approaching its goals, the Fed worried that slower international economic activity would potentially depress U.S. growth rates (and employment), while a strong dollar was likely to keep inflation lower for longer. Given the uncertainty, it didn't feel an imminent need to raise rates. On the other hand, their longer-range forecasts show rate increases over the next year, albeit at a pace well below normal cyclical patterns. Current Fed governor forecasts have the Fed Funds rate moving up from 0.12% currently to just 1.4% by the end of 2016, slowly working its way to 3.4% by the end of 2018. In total, that is just barely over a 3% increase in more than three years. The relatively slow pace and small size of the total increase are all well below history.

Effective Federal Funds Rate



Source: Federal Reserve. This article contains certain forward-looking statements which involve known and unknown risks, uncertainties, and other factors that may cause the actual results to differ materially from any future results expressed or implied by those projected statements. Past performance does not guarantee future results.

What's Happening at SWA



The SWA Team

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As year-end approaches, we are currently processing Required Minimum Distributions (RMD) for our advisory clients. If you have a regular or traditional IRA and are age 70 ½ or more, you may need to take a Required Minimum Distribution (RMD) by December 31st. Inherited IRA account holders may also need to take an RMD. Check with SWA for RMD calculations, combining more than one IRA and how to handle an existing 401k if you are retired or still working.

If you are contributing to your employer's retirement plan such as a 401k or 403b and you want to maximize your annual contributions, you can contribute up to $18,000 this year ($24,000 if you are at least age 50 by the end of the year). Check with your employer or send SWA your most recent paystub to see if you need to bump up your contributions for the remainder of 2015.

Monthly Market Commentary

Despite a softening world economy, Morningstar economists' forecast remains relatively unchanged from their June 2015 forecast. They have upped the 2015 growth by a seemingly small 0.1% to 2.2%–2.6% range; however, it seems that the higher end of the range is now likely. The consumer has continued to do well, net exports haven't yet proved to be the disaster everyone expected (mainly because imports have done as poorly as exports), and government spending is no longer falling. Housing continues to provide a meaningful contribution to overall GDP growth, too while business investment spending remains soft.

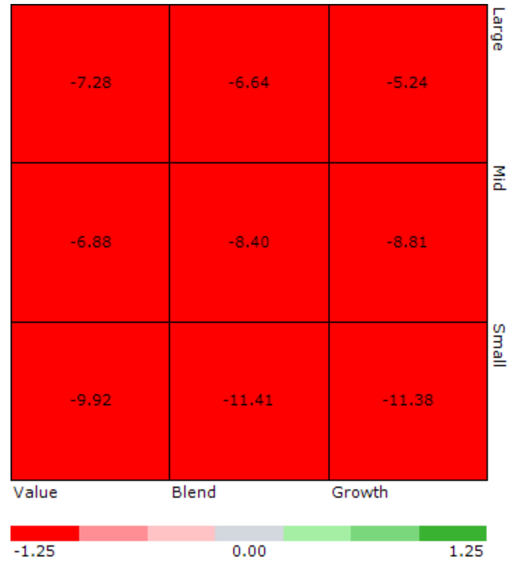
China: Most of the change we saw over the past quarter related to China. The Chinese currency was devalued, and many Chinese economic indicators continued to slow. Many of Morningstar analysts have been warning about China for some time. China has showed lower growth rates and missed growth forecasts for several years. It's not new news. Still, the devaluation brought some already well-known weaknesses to the forefront. A slowing China generally has helped the U.S. economy as the small decrease in exports has been more than offset by lower commodity prices, which puts more money in consumer pockets.

The Fed: The other big news was that expectations of a Fed rate increase continue to get pushed out in time. At the end of 2014, some speculated that the Fed might take action as early as March 2015. Now in September, a rate increase by December is by no means a done deal. The Fed noted worsening conditions in China that could potentially slow the U.S. GDP growth rate and employment outlook as their reasons for further interest rate hike delay. Now the Fed has sowed doubts and created uncertainty for investors and business people as they openly fret about world growth rates. Uncertainty is the market's worst enemy, and the markets have reacted accordingly. U.S. equity and emerging markets were little changed at the 2015 halfway point. Now, nearing the end of the third quarter, the S&P 500's year-to-date performance looks to be down in the mid-single digits, and emerging markets a more worrisome mid-teens decline.

Auto Sales: Auto sales are a very large consumer purchase. The average vehicle price is more than $30,000, so it is not a decision that consumers take lightly. The commitment is large and long term, with some auto loans extending out to seven years. If consumers were worried about their employment or wage outlook, they wouldn't be committing to big auto purchases. With the help of low interest rates, cheaper gasoline, and better employment data, auto sales in 2015 have done better than almost anyone expected. At the beginning of 2015, most sales focused on the 16.8 to 17.0 million range. It now looks like sales are much more likely to fall in the 17.0 to 17.5 million range for 2015, compared with 16.4 million units in 2014. The unweighted monthly average through August is 17.1 million units, so even the high end of the estimate range looks quite doable. Although there are some calendar effects that may be helping the number along a little, the ever-rising trend in recent months is hard to deny. It hardly suggests that consumers are feeling any fear.

Housing: Requiring even more confidence than buying a car is buying a home. With average new home prices of about $360,000, a home purchase is 10 times bigger than a car and totally dwarfs a $100 restaurant meal. To eliminate the investment aspect of multi-family homes (apartment owners renting out multiple homes or apartments), one should focus primarily on new home sales. Current sales levels at an annual rate above of 500 thousand units, remain near recovery highs. However, they are just off this spring's levels, which benefited from improving weather conditions. So while new home sales have slowed modestly, the year-over-year growth rates (nearly 20% growth) remain impressive and hardly indicative of any kind of consumer temper tantrum.

Quarterly Market Barometer



3 Months, ending September 30, 2015. The U.S. Market returned -7.02% (YTD -5.30%).

The Morningstar Market Barometer provides a visualization of the performance of various stock market indexes. The color scale (red for losses and green for gains) allows you to assess which areas of the market performed strongly and which areas showed weakness for the time period analyzed. The nine-square grid represents stocks classified by size (vertical axis) and style (horizontal axis). There are three investment styles for each size category: small, mid and large. Two of the three style categories are "value" and "growth" and the central column represents the core style (neither value nor growth characteristics dominate). Large-caps account for the top 70% of the capitalization; mid-caps represent the next 20%; and small-caps represent the balance.

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