Commentary

November 16, 2015

The Markets

Attacks on Paris by the Islamic State were an appalling exclamation point at the end of a difficult week for stock markets.

World stock markets tumbled as investors braced for a possible rate hike by the Federal Reserve in December. Many national indices across the United States, Europe, and Asia experienced downturns of more than 2 percent. The Dow Jones Industrial Average lost 3.7 percent and the Standard & Poor's 500 Index gave back 3.6 percent. The exception was Japan's Nikkei 225, which gained 1.7 percent, largely because its weakening currency benefitted Japanese exporters.

The chances are pretty good the Federal Reserve will lift rates during December. A *Reuters'* poll of 80 economists asserted there is "a 70 percent median chance the U.S. central bank would raise its short-term lending rate at its final meeting of the year..." A survey taken by *The Wall Street Journal* found 92 percent of academic and business economists expect Fed liftoff in December.

Even if the Fed does raise rates, it's important to remember that market forces determine interest rate levels. Raising the Fed funds rate is the Fed's way of encouraging higher interest rates and tighter monetary policy, but it may not have the intended affect. *Crain's Chicago Business* reported, "The Fed is moving into uncharted territory. It has never tried to raise the federal funds rate – that is, make money harder to get – when the banking system was flush with $2.5 trillion of excess reserves, as it is now."

In the U.S., investors digested weaker-than-expected retail sales data. U.S. retail sales remained in positive territory in October (up 0.1 percent); however, economists were anticipating an increase of 0.3 percent. Regardless of the discrepancy, there are signs consumer spending will remain steady through the last quarter, according to *Reuters*. As a result, retail sales data are unlikely to affect decisions being made by the Federal Reserve.

It's likely markets will continue to rumble and roil next week as the world processes the horrific Islamic State strikes in Paris, in Lebanon, and against Russia.

Data as of 11/13/15	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-3.6%	-1.7%	-0.8%	13.8%	11.0%	5.1%
Dow Jones Global ex-U.S.	-2.2	-6.3	-8.3	2.4	-0.4	1.3
10-year Treasury Note (Yield Only)	2.3	NA	2.4	1.6	2.8	4.6
Gold (per ounce)	-0.7	-9.8	-6.9	-14.4	-4.6	8.8
Bloomberg Commodity Index	-3.3	-21.0	-28.9	-16.4	-11.2	-6.8
DJ Equity All REIT Total Return Index	-2.1	-2.4	1.0	10.4	11.4	7.1

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT Total Return Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.
Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association.
Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

WHAT WILL HAPPEN AFTER THE FEDERAL RESERVE BEGINS TO RAISE RATES? If the Fed's efforts to raise interest rates are successful, what will happen next? It all depends on whom you ask:

Dr. David P. Kelly, CFA, Managing Director Chief Global Strategist, JPMorgan: "Looking back at prior Fed rate hikes suggests that at first, investors have a tough time stomaching the idea of higher yields. However, as it becomes increasingly apparent that the Fed is hiking rates for all of the right reasons, markets re-price in line with their underlying fundamentals. For that reason, it is important for investors to prepare for a likely uptick in volatility around Fed liftoff."

Robert C. Doll, CFA, Chief Equity Strategist, Nuveen: "First, higher rates would likely trigger higher bond yields, which would be a negative for Treasuries. Additionally, an increase would likely put upward pressure on the U.S. dollar. A strong dollar is usually a negative for oil prices… Finally, we think the combination of higher rates and a stronger dollar could hurt U.S. companies that do most of their business overseas."

The Financial Times: "Almost every asset class on the planet exhibits some evidence of frothiness these days, but some seem more vulnerable to higher interest rates. Although stocks look expensive, higher interest rates indicates that economic growth is firm, and that is good for listed companies. Gold typically loses its shine when interest rates climb, as the metal doesn't pay any interest like a bank account will, but has already been beaten up heavily recently. The bond market looks more exposed."

The Fed is expected to raise rates slowly and cautiously. We won't know when rates will increase or by how much until the next Federal Open Market Committee meeting. That meeting takes place on December 15, 2015.

Weekly Focus – Think About It

"Terrorism [takes] us back to ages we thought were long gone if we allow it a free hand to corrupt democratic societies and destroy the basic rules of international life."
--Jacques Chirac, former French Prime Minister

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*Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.
* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.
* The Standard & Poor's 500 (S&P 500) is an unmanaged index. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.
* The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.
* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S.

Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
* Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.
* The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
* The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
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* Past performance does not guarantee future results. Investing involves risk, including loss of principal.
* You cannot invest directly in an index.
* Consult your financial professional before making any investment decision.
* Stock investing involves risk including loss of principal.

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