

Commentary

June 15, 2015

The Markets

Sir John Templeton once said: “Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria.”

If he was right, investor sentiment seems to support the idea the bull market may be around for a while. The *American Association of Individual Investors'* most recent poll indicated investors aren't feeling very optimistic:

- 20 percent of investors were bullish – fewer than in the previous poll, and far lower than the historic average of about 39 percent.
- 47 percent of investors were neutral – fewer than in the previous poll, and far higher than the historic average of about 31 percent.
- 33 percent of investors were bearish – more than in the previous poll, and slightly higher than the historic average of about 30 percent.

Investors have had plenty to worry about. U.S. economic growth appears to be slowing which has created questions about the wisdom of a possible Fed rate hike. “Liftoff,” as some have called the much anticipated interest rate change, could also affect the global economy. The World Bank and International Monetary Fund have cautioned against a 2015 increase suggesting, “...a premature rate hike in the United States would exacerbate volatility in the world's currency markets and hurt the global economic recovery.

The Fed isn't investors' only worry. Last week, the International Monetary Fund walked out of Greek debt negotiations. The *BBC* reported:

“Greece is seeking a cash-for-reform deal, to avoid defaulting on a €1.5bn debt repayment to the IMF... The EU and IMF are unhappy with the extent of economic reforms the Athens government is offering in exchange for the release of a final €7.2bn (£5.3bn) in bailout funds. Their bailout deal with Greece runs out at the end of June.”

If negotiations fail, Greece may be forced to leave the Euro which the *BBC* said could make the country a pariah in international markets. U.S. stocks finished the week higher despite losing value when Greek debt negotiations stalled.

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AND THE SURVEY SAYS... SEPTEMBER! *The Wall Street Journal* has been out on the street asking economists when they think the Federal Reserve is likely to begin increasing the Fed funds rate. Unlike Jay Leno's interviews with average people on the street, not one economist asked, “What's the Fed funds rate?”

Although a few diehard economists (6 percent) believe a June or July increase is possible, the rest expect liftoff in September or later. The *Journal* explained the circumstances that have gotten us to this point:

“The Fed has kept short-term interest rates pinned near zero since December 2008 to support the U.S. economy through a financial crisis, recession and slow recovery. Officials have signaled they expect to begin raising rates sometime this year. The central bankers say [they] want to see continued improvement in the job market, and they want to be “reasonably confident” that too-low inflation will soon move back toward their 2 percent annual target.”

Employment has been moving in the right direction and Fed estimates suggest inflation may reach 1.8 percent during 2016, so what's the hold up? Some Fed officials are concerned the American economy has lost momentum, and they're not alone.

When the *Journal* asked analysts to estimate gross domestic product (GDP) growth for 2015, 2016, and 2017, their June estimate was 2.1 percent. That's considerably lower than their March estimate of 2.9 percent. The Fed's March

estimate of GDP growth in 2015 was 2.5 percent. A revised June growth projection should be out this week. If expectations deteriorate, it's possible the Fed may decide rates shouldn't go much higher.

Analysts' estimates for the 2015 Fed funds rate declined to 0.58 percent from 0.83 percent in March indicating they believe the Fed may not raise rates as much as had previously been expected.

Weekly Focus – Think About It

"Public opinion is a permeating influence, and it exacts obedience to itself; it requires us to drink other men's thoughts, to speak other men's words, to follow other men's habits."

--Walter Bagehot, *British*

journalist

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