Commentary

November 23, 2015

The Markets

Financial markets were remarkably calm last week.

Many stock markets in the United States, Europe, and Asia moved higher as investors chose to focus their attention on the minutes of the October 27-28, 2015 Federal Open Market Committee (FOMC) meeting, which were released on Wednesday, rather than recent terrorist attacks in Paris, Lebanon, Mali, and against Russia.

The FOMC minutes captured attention because they suggested even if the Federal Reserve does begin to tighten monetary policy in December, rate increases may be incremental and the target rate may not be as high as many imagined. *Bloomberg* reported:

"Fed officials received a staff briefing on the equilibrium real interest rate, or the policy rate that would keep the economy running at full employment with stable prices, according to the minutes. Fed officials discussed the possibility that the short-run equilibrium rate "would likely remain below levels that were normal during previous business cycle expansions," the minutes said."

Former Federal Reserve Chairman Ben Bernanke has written about the equilibrium real interest rate on his blog. The point he makes is the equilibrium rate – not the Fed – determines interest rates. The Fed uses its influence to move interest rates toward levels that are consistent with its estimate of the equilibrium rate. If the Fed pushes for rates that are too high, the economy may slow. If it pushes for rates that are too low, the economy may overheat. Not everyone agrees on this point, and that has led to debate between Mr. Bernanke and Former Treasury Secretary Lawrence Summers.

While the Fed is expected to begin tightening U.S. monetary policy, the European Central Bank (ECB) is expected to further loosen monetary policy in December. *The Wall Street Journal* reported the ECB is "prepared to deploy its full range of stimulus measures to fight low inflation…" The news was welcome. *CNBC* reported European markets closed the week at three-month highs.

Data as of 11/20/15	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	3.3%	1.5%	1.8%	14.6%	11.8%	5.2%
Dow Jones Global ex-U.S.	2.5	-3.9	-6.4	3.1	0.2	1.5
10-year Treasury Note (Yield Only)	2.3	NA	2.3	1.7	2.8	4.5
Gold (per ounce)	0.0	-9.8	-9.1	-14.5	-4.4	8.3
Bloomberg Commodity Index	-1.2	-22.0	-31.0	-17.1	-10.9	-6.8
DJ Equity All REIT Total Return Index	3.8	1.3	5.2	11.8	12.4	7.3

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.

IF THERE WERE A "PAGE SIX" FOR FINANCE AND ECONOMICS, emerging markets would be splashed across it.

Remember the saying, "Buy low and sell high?" Well, emerging markets have not performed well for quite a long time, and that has a lot of people speculating about what may happen in the next few years.

Analysts at *BlackRock* opined, "Emerging-market (EM) equities are fighting an uphill battle, held back by an appreciating U.S. dollar, falling commodity prices, and flagging exports. These only add to their other medium-term struggles, such as dwindling corporate profits, declining productivity, and a dispirited investor base. With valuations of EM equities trading at the largest discount to their developed-market peers in 12 years, some opportunities are beginning to emerge."

In fact, several economists and asset managers have begun to compare and contrast the attributes of various emerging markets. Some say China is a better bet than Latin America. Others like the opportunities in Southeast Asia. A *Goldman Sachs* analyst cited by *Bloomberg* cautioned, "… Colombia, South Africa, Turkey, and Malaysia still need to tackle their current-account imbalances; Russia, India, and Poland are among nations that have improved enough for their assets to rally…"

The point is there is a buzz building around emerging markets. Sometimes, when analysts begin to emphasize the potential of an asset class, investors are tempted to pile in. While emerging markets investments can be a valuable part of a well allocated and diversified portfolio, it's a good idea to remember there are distinct risks which are not suitable for all investors associated with investing in emerging markets.

If you have questions about your financial strategy, please give contact your financial advisor.

Weekly Focus – Think About It

"All you need in this life is ignorance and confidence, and then success is sure."
--Mark Twain

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* 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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* Stock investing involves risk including loss of principal.

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