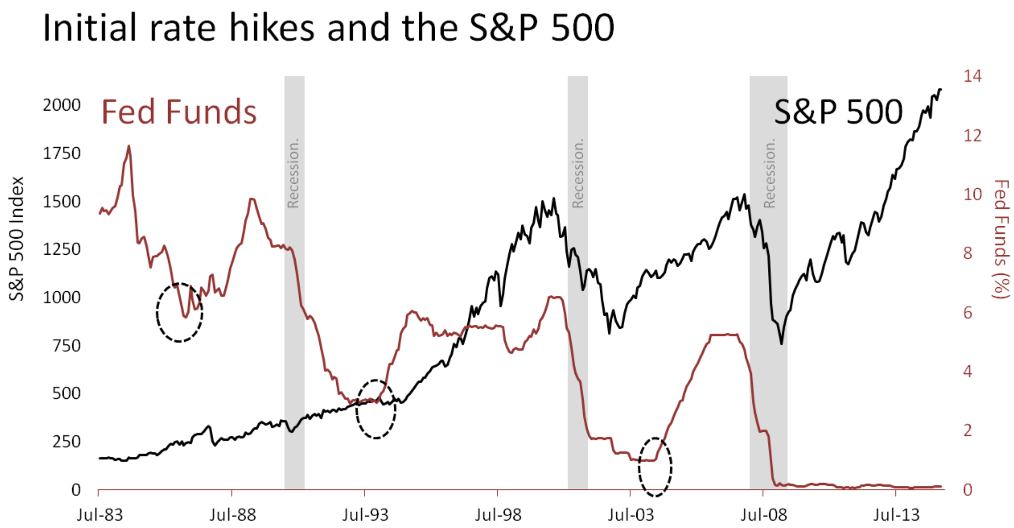
Quarter 2, 2015

With the Federal Reserve considering when to raise short-term interest rates, how has the stock market responded historically to past rate hikes?



Source: Federal Reserve, Standard & Poor's. Data through March 2015.

1. It was inevitable that genuine upward pressure on rates would show up in the debt markets before the Fed got around to doing anything. Thus, the benchmark 10-year Treasury bond, which was yielding 1.80% as recently as February, yields 2.20%. Yet even as that interest rate recorded its quite sharp increase, the Standard & Poor's 500-Stock Index made a new high around 2,130.[2]
2. The currently prevailing narrative, reduced to its essence, is "Whenever the Fed raises rates, the market will go down."[2] However, point #1 demonstrates that the market, expecting the Fed to raise short-term interest rates, has already begun raising long-term interest rates in anticipation.
3. The MSCI EAFE advanced for the quarter despite heightened volatility as a result of Greece's negotiations with the Euro zone. Following quarter end, a tentative agreement was reached which released bailout funds after agreeing to austerity measures. China ended the quarter up 6.2% despite its precipitous drop of 29% near quarter end.[3]
4. We were all taught, at some point, one of those timeless investment truisms which turn out not to be true at all: in this case, that there are only two investment objectives, "growth" and "income". In fact, what we will need more than anything else in a three-decade retirement marked by relentlessly increasing living costs is growth of income. And it is **growth of income** that the dividends and capital values of mainstream equities have historically provided over time. [1]
5. The Federal Reserve continued to posture for raising the Federal Funds rate before the end of 2015. In response, fixed income returns over the quarter were generally negative with duration sensitivity.[3]

Have a great summer! **Thank you** for the privilege to serve you, for keeping us in mind when you talk with friends and family and for your past referrals.

Your team at Kehoe Financial Advisors

[1]Nick Murray. Skating to Where the Puck is Going to be [2] Nick Murray. Which Economy are you Worried About
[3] NFP Quarterly Considerations Q2 2015.

S&P 500 Index is an unmanaged group of securities considered to be representative of the stock market in general. You cannot directly invest in the index.
The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada.

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