

Commentary

December 14, 2015

The Markets

It's not like it's a surprise!

Last week, investors didn't appear to be thrilled with the possibility the Federal Reserve might raise rates this week. They also weren't too impressed by another drop in oil prices. There was red ink everywhere as markets from Australia to Hong Kong, across the Eurozone, and throughout the Americas moved lower last week.

Bloomberg reported there was a 74 percent probability of a Fed rate hike at the December Federal Open Market Committee meeting. *The Wall Street Journal's* survey of business and academic economists put the chance at 97 percent. More than 80 percent of those surveyed said the Fed would lose credibility if it doesn't act in December.

It's important to remember the Fed doesn't actually set interest rates. It takes actions designed to influence financial behaviors. Even if the Fed does push to increase interest rates, it remains to be seen whether its efforts will bear fruit. *The Financial Times* wrote:

"...As "lift-off" has drawn closer some analysts have begun to highlight just how experimental this interest rate rise will be. The Fed's bloated balance sheet – swelled by its quantitative easing program – prevents it from using its traditional interest rate tools, so it has unveiled and has been testing new ones. The main new levers are known as the "interest on overnight reserves" and the "overnight reverse repo program," and central bank officials are confident that they will be able to lift the Fed funds rate, which is the main target. But some analysts caution that it could be a choppy take-off."

If the Fed acts and interest rates don't respond, there may be further volatility. *The Financial Times* reported markets almost certainly have priced in a rate hike at this point. We'll find out next week.

Data as of 12/11/15	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-3.8%	-2.3%	-1.1%	12.1%	10.2%	4.8%
Dow Jones Global ex-U.S.	-3.1	-8.3	-8.4	-0.1	-1.1	0.6
10-year Treasury Note (Yield Only)	2.1	NA	2.2	1.7	3.3	4.6
Gold (per ounce)	-0.6	-10.6	-11.8	-14.4	-5.2	7.2
Bloomberg Commodity Index	-4.0	-24.8	-29.2	-17.7	-12.9	-7.9
DJ Equity All REIT Total Return Index	-2.0	-1.0	-0.3	9.9	11.6	6.9

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.

NEXT YEAR, CHINA'S RENMINBI (A.K.A. YUAN) WILL JOIN THE U.S. DOLLAR, euro, yen, and pound, when it is added to the International Monetary Fund (IMF)'s Special Drawing Rights (SDR) basket – a supplementary foreign exchange reserve asset that is defined and maintained by the IMF. It will become the third weightiest currency in the basket. After the renminbi is added, the U.S. dollar will comprise 42 percent of the basket (unchanged from 2010). The euro will be 31 percent (down from 37 percent in 2010). The renminbi will be 11 percent. The Japanese yen will be 8 percent (down from 9 percent in 2010). The British pound will be 8 percent (down from 11 percent).

Managing Director of the IMF Christine Lagarde said:

"The Executive Board's decision to include the RMB in the SDR basket is an important milestone in the integration of the Chinese economy into the global financial system. It is also a recognition of the progress that the Chinese authorities have made in the past years in reforming China's monetary and financial systems. The continuation and deepening of these efforts will bring about a more robust international monetary and financial system, which in turn will support the growth and stability of China and the global economy."

So, is the renminbi likely to give the U.S. dollar a run for its money? Not any time soon, according to economists surveyed by *The Wall Street Journal*. Over the next 50 years, they gave China about a 34 percent chance of challenging the dollar. One said, "To match the dollar's appeal, China will need markets as deep as those in the U.S. and to produce economic indicators that are

trustworthy.”

Weekly Focus – Think About It

“Power is of two kinds. One is obtained by the fear of punishment and the other by acts of love. Power based on love is a thousand times more effective and permanent than the one derived from fear of punishment.”

--Mahatma Gandhi, *Former leader of the Indian*

independence movement

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- * 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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