Weekly Market Commentary
August 29, 2016

The Markets

Attention investors: U.S. interest rates may be moving up and it might happen this year.

During last Friday's speech at the Federal Reserve's annual economic symposium in Jackson Hole, Wyoming, Fed Chairwoman Janet Yellen signaled that a rate hike is probably coming but, as usual, she didn't offer any specifics about the timing:

> "…Indeed, in light of the continued solid performance of the labor market and our outlook for economic activity and inflation, I believe the case for an increase in the federal funds rate has strengthened in recent months. Of course, our decisions always depend on the degree to which incoming data continues to confirm the Committee's outlook."

There's a good chance the increase could occur during 2016. *Goldman Sachs* economists, cited by *Bloomberg*, said the subjective odds of a September rate hike increased from 30 percent to 40 percent last week. *Bloomberg's* data suggests a 65 percent chance of a rate hike by December.

The U.S. bond market responded with a flattening of the yield curve. When the bond yield curve is flat, short-term and long-term bonds of similar credit quality offer investors almost the same rates. *Barron's* explained: "A flattening yield curve can indicate economic weakness. It signals investors expect inflation (and interest rates) to stay low for a long time."

Why would the yield curve flatten as the Fed raises rates? One expert told *Barron's* he expects a Fed rate hike to lower inflation expectations, causing interest rates on longer-term benchmark Treasuries to move lower.

Stock investors weren't thrilled about Yellen's comments last week, and major U.S. indices largely finished the week lower.

Data as of 8/26/16	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-0.7%	6.1%	11.8%	9.4%	13.0%	5.2%
Dow Jones Global ex-U.S.	-0.9	2.9	4.4	-0.4	2.2	-0.1
10-year Treasury Note (Yield Only)	1.6	NA	2.2	2.8	2.2	4.8
Gold (per ounce)	-2.1	24.2	17.7	-2.4	-5.9	8.0
Bloomberg Commodity Index	-1.5	8.2	-0.2	-13.5	-12.0	-6.7
DJ Equity All REIT Total Return Index	-0.4	13.1	24.3	14.9	14.5	6.7

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.

WHY AREN'T AMERICAN BUSINESSES INVESTING? For quite some time, American consumers have made the largest contribution to U.S. gross domestic product (GDP) growth. During the second quarter of 2016, personal spending and exports made positive contributions to GDP. These were largely offset by negative contributions from "private inventory investment, residential fixed investment, state and local government spending and nonresidential fixed investment."

Last week, *The Economist* pondered why businesses are not investing:

> "Firms are on a six-year hiring spree that shows little sign of abating; payrolls swelled by an average of 190,000 a month between May and July. Competition for workers is pushing up wages. The median pay rise in the year to July was 3.4%, according to the Federal Reserve Bank of Atlanta. Americans are spending that cash; in the second quarter, consumption per person grew at an annual pace of 5.5%, equaling its fastest growth in a decade. Yet real GDP is expanding by only 1.2% a year. The culprit seems to be business investment, which has fallen for three consecutive quarters."

The Economist reflected on the effects of low oil prices, questioning whether weak demand for goods or tighter credit was the culprit behind low business spending. It concluded that slow trend growth (the rate at which the U.S. economy is expected to grow over a period of time) is producing fewer opportunities for profitable long-term investment, and offered the opinion that a solution could be found in fiscal policy:

> "Businesses anticipating slower long-term growth cannot be expected to invest much. And politicians cannot easily conjure up technological progress. But they can boost competition, simplify taxes and regulation, and invest in infrastructure and education, all of which would help to raise American productivity."

Of course, getting politicians to agree on a course of action and implement a coherent fiscal policy is a tall order.

Weekly Focus – Think About It

"When we decided not to sell our business people called us a lot of things besides crazy – things like arrogant and entitled. The same words that I've heard used to describe our generation time and time again. The Millennial Generation. The 'Me' Generation. Well, it's true. We do have a sense of entitlement, a sense of ownership, because, after all, this is the world we were born into, and we are responsible for it."

--*Evan Spiegel, CEO of Snapchat*

Best regards,

FIDES Wealth Strategies Group

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this e-mail with their e-mail address and we will ask for their permission to be added.

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Sources:

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