CORBETT ROAD

MACRO MUSINGS

June 21, 2017

Rush Zarrabian, CFA
Portfolio Manager

THE FED RAISED RATES AGAIN. WILL IT BE THE LAST TIME THIS YEAR?

SUMMARY

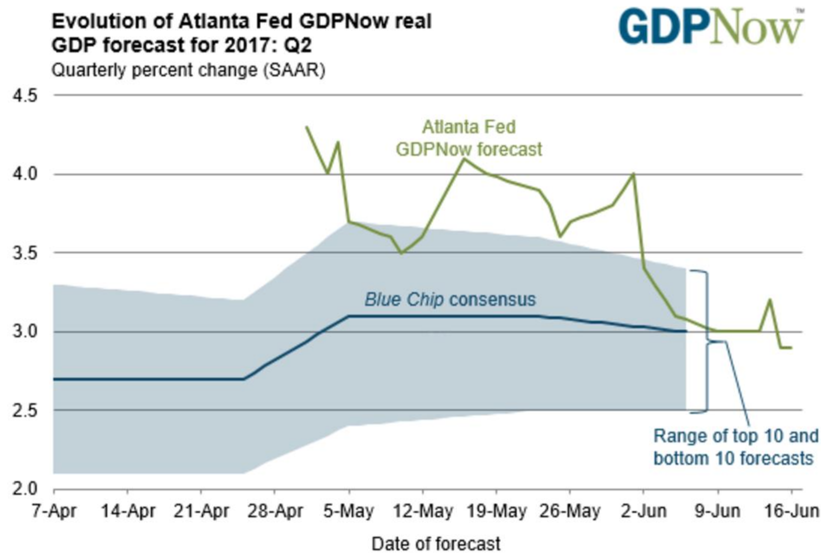
- Economic activity remains steady, but not robust. GDP growth is expected to rebound in the second quarter and throughout the remainder of the year. Initial claims for unemployment remain low and support continued employment growth.
- As expected, the Federal Reserve raised interest rates last week. It appears that the Fed is preparing to raise rates one more time this year, but the market is not expecting another hike in 2017. Even if the Fed does raise rates another 0.25%, *real* interest rates remain below 0% thanks to inflation.
- While the market is up close to 10% through the middle of June, returns in 2017 have matched the typical seasonal pattern of the S&P 500.

ECONOMIC DATA REMAINS STEADY

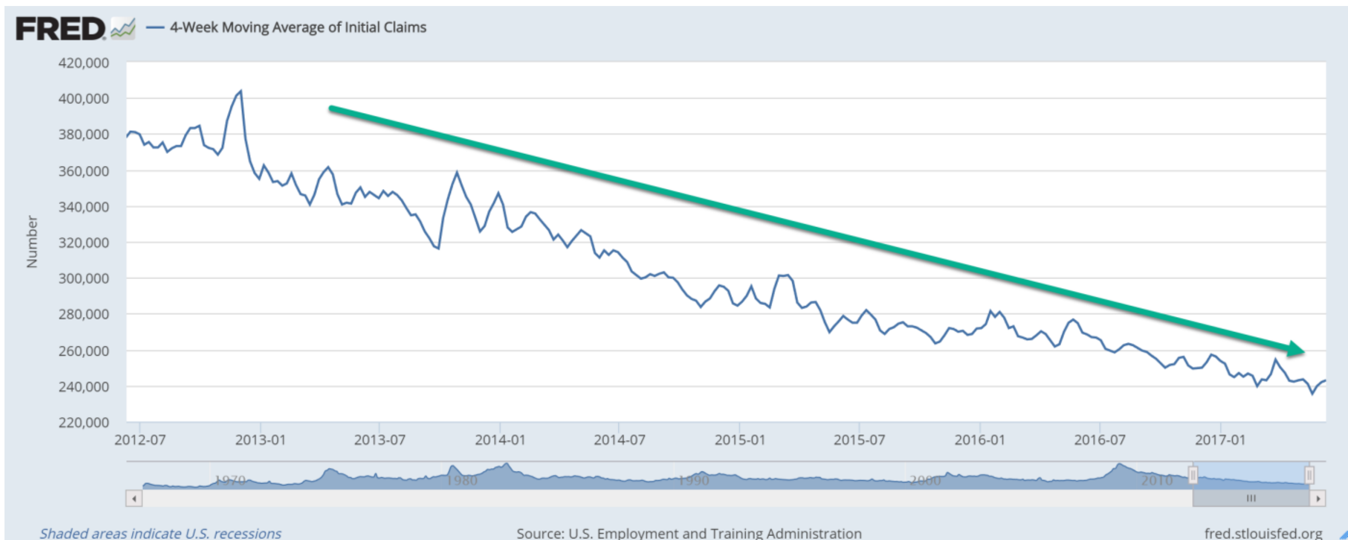
Economic Growth remains consistent. It has been strong enough to avoid recession, but not strong enough to create significant inflation pressure. With the tax reform and the potential for stimulative fiscal policy delayed, we are not projecting an increase or decrease from the average GDP growth of the past several years.

Please see important disclosures at the end of this article

Q1 GDP growth was weak, but this has been the case for several consecutive years now. The outlook for the second quarter is higher, with the consensus being around 3% growth (from the Atlanta Fed's GDP Now forecast):



Employment data remains supportive of further job growth. Initial claims for unemployment are near all-time lows.



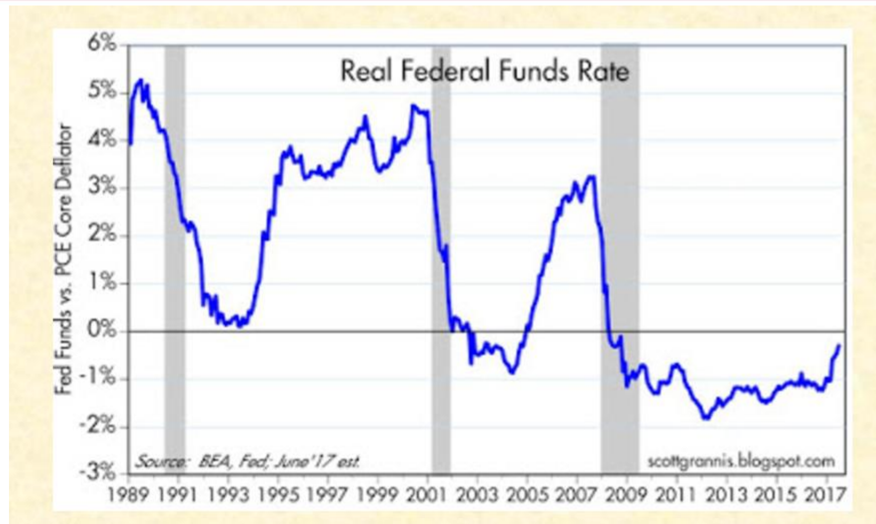
CORBETT ROAD

THE FED BELIEVES THE ECONOMY IS ON SOLID FOOTING, RAISES RATES AGAIN

It appears the Fed is looking at the data and seeing the same thing we are: a decent economy and job growth. Given those conditions, they raised interest rates by 0.25%, which was fully anticipated by the market. It was the second rate hike this year and the fourth hike since December 2015.

Interestingly enough, every time a rate hike occurs the *real* fed funds rate remains below zero. This has been the case since the global financial crisis. You can calculate the real rate by subtracting the rate inflation from the most recent published rate.

The chart below shows the real Fed funds rate going negative in 2008, and it has remained there since.

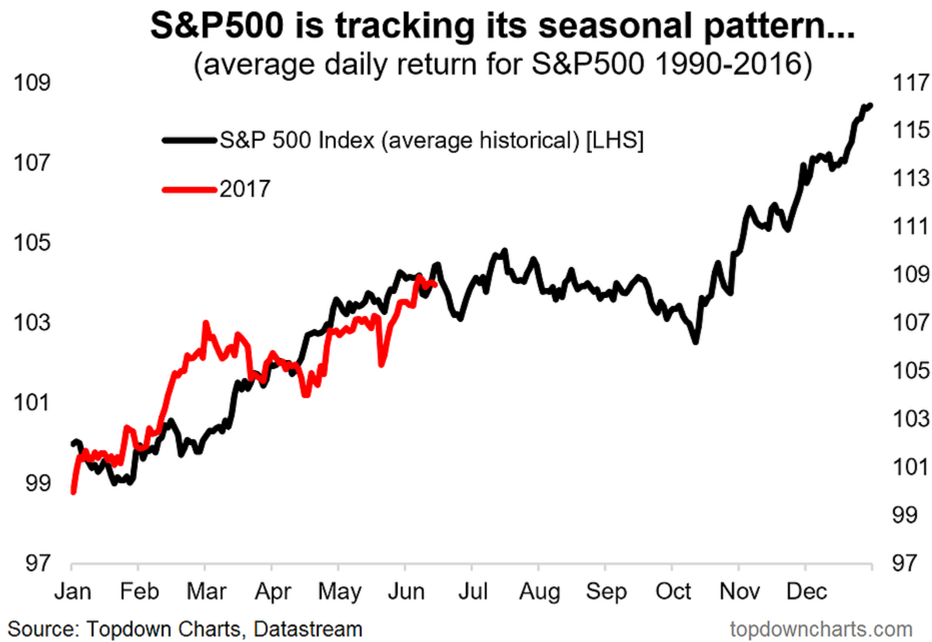


This is particularly important to investors with large cash balances. Not only are savings accounts and money markets earning a low interest rate, the actual value of that money is going down, as it is being eaten away by inflation.

The S&P is having an average year

Seasonal patterns are much talked about in the investment world. While few invest based solely on the calendar, we believe seasonality remains an important concept worth reviewing from time to time.

Year to date, it is rather remarkable that the market has performed in line with its historical monthly performance, dating back to 1990 (data from topdown charts):



In the average year, the market starts out strong, consolidates through early fall, and then rebounds into year end.

Of course, the market does not follow a set pattern. Performance varies widely year to year, but looking at the average year can still be a valuable exercise. For example, 2017 began much stronger than average but then consolidated from March to May. The pattern above suggests a dip over the next few months would be completely normal. Further gains during the summer months may suggest a stronger performance year than normal (like in 2013), but could also indicate the correction will come later. We must keep an open mind, and, as always, look to MACROCAST™ to guide our process.

CORBETT ROAD

The chart(s)/graph(s) shown is(are) for informational purposes only and should not be considered as a suggestion of any investment recommendation, investment strategy, or as an offer of advice to buy, sell, or exchange any investment product or investment vehicle. Past performance may not be indicative of future results. While the sources of information, including any forward-looking statements and estimates, included in this (these) chart(s)/graph(s) was deemed reliable, Corbett Road Wealth Management, Spire Wealth Management LLC, Spire Securities LLC and its affiliates do not guarantee its accuracy.

The views and opinions expressed in this article are those of the authors and do not necessarily reflect the opinions of Spire Wealth Management LLC, Spire Securities LLC or its affiliates.

All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. MACROCAST™ is a proprietary index used by Corbett Road Wealth Management to help assist in the investment decision-making process. Neither the information provided by MACROCAST™ nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. The phrase "the market" refers to the S&P 500 Total Return Index unless otherwise stated. The phrase "risk assets" refers to equities, REITs, high yield bonds, and other high volatility securities. Past performance is no guarantee of future results.

Spire Wealth Management, LLC is a Federally Registered Investment Advisory Firm. Securities offered through an affiliated company, Spire Securities, LLC, a Registered Broker/Dealer and member FINRA/SIPC