

Market Outlook:

Necessary

If, and without question when, interest rates begin to rise, it should come as no surprise to anyone who follows the markets closely. We've had a long time to prepare for this cyclical trend reversal. And besides, the time is right and the trend line is impatient to rise.

The first move, however, doesn't belong to the Federal Reserve or the Bank of England or any other global monetary governing body. No, the *first* move will be attributed to emerging market forces that have laid dormant for nearly three years.

Yet, each time a discussion breaks out regarding the consequences of an interest rate rise, the markets (most notably equities) act panicked, as if they are surprised by the mere mention, or unaware, of existing fundamentals.

Why the panic? Because most businesses, economists, consumers, and market traders have gotten used to the status-quo.... "free" money with which to buy stocks; engage in corporate mergers and acquisitions; finance automobiles; and speculate, once again, in real estate. It's time we gave more thought to what's best for the long-term sustainability and balance in the global marketplace.

If they were paying attention, economists would notice that anecdotal inflation is already quite pervasive...in home goods, family and corporate expenses, and tangible assets. Everything except wages. The last time non-statistical inflation was this high was in 2005, well before the credit "crash".

It appears as if unabated borrowing is a behavior to which we have grown accustomed for the foreseeable future. **For example, one might ask if stocks are rising because of fundamental underlying improvements in economics, or simply because it's cheaper to buy them today on margin, or to "buy back" company shares with excess cash?** If money is "cheap", does that make stocks de-facto targets for opportunistic traders irrespective of valuation or timing?

The amount of money on the sidelines or in corporate coffers is now at its highest since after the crash in 2009. That money is looking for a return on investment (ROI). Stocks are meeting those needs quite decisively. Money "flows" just like any other cyclical phenomenon. If the economy isn't providing those investment outlets, then it seeks opportunity elsewhere, and, today, equities offer that surrogacy, particularly if bonds (interest rates) fail to tender a suitable alternative. As a result, equity asset valuations are being pushed (artificially) higher.

Better now than later

As stipulated earlier, consumer prices are also rising. Electricity, transportation, healthcare (pharmaceuticals), tuition, discretionary goods, and food are all more expensive than last year. Manufacturing surveys show that rising production costs are being passed on to the end user, the consumer.

Without wage gains commensurate to price increases, we are heading for an economic impasse of significant proportion and, perhaps, political upheaval, as well.

Despite all this, the main beneficiaries of low interest rates are the "villains" we love to hate, the financial institutions. The same cast of characters who brought you the *"repackaged, refinanced loan portfolio of foreclosed real estate properties"*. If credit were to become tighter, they fear you wouldn't be so inclined to borrow money anymore. That would be bad news for *them*.

Without lending credence to the bank's conundrum, it is, however, time for cycles and market forces naturally to evolve. Sometimes, difficult patterns are still the "right" patterns. By holding interest rates low deliberately, we have been encouraging a *lend-at-all-costs* monetary policy, the kind that leads to disastrous market crashes and personal financial catastrophes that no one wants to see repeated.

Prices will always fluctuate. Trends will always evolve. It's time to face the inevitability of a responsible uptick in interest rates.

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