Scotty C. George
Chief Investment Strategist

December 7, 2015

Market Outlook:

You go that way....

Last week offered up yet another example of how a divergence in monetary policy between the Federal Reserve (US) and the ECB (Europe) causes grating swings in financial market activity. Unsure of exactly which policy trumps the other, investors first drove stocks up....based upon "good" economic news... then took away all momentum by selling out just as violently. Finally, once the dust settled, they bid prices up once again!! A trader's schizophrenia has set in with each news announcement. In layman's parlance, "easy money" desired by the European Central Bank would create the liquidity that supports growth and investment; regulating the buoyant state of the US economy, however, probably means a rate increase after seven years of near-zero interest.

Curiously, there are as many elements to revitalization policies as there are locations and regions from which to transact them. Each continent has its advocates who argue forcefully for abiding principles that make currency stronger, jobs more abundant, and investment opportunity more sustainable. It is, of course, impossible to have a *"one size fits all"* global monetary standard.

Yet, confusion about what the ultimate outcome might be jostles stock markets with uncomfortable frequency. Here in the US, observers expect employment to continue expanding, productivity to maintain acceleration, and output (GDP) to increase. Abroad, the same pundits see declining output, shrinking employment, and market weakness. Thus, stock markets recoil daily...hourly...from the confusion.

As rates rise from their nadir here, and shrink towards their nadir overseas, investors are faced with the possibility that economic imbalances might forestall growth in *both* regions. Major European banks are already proclaiming that stimulus from ECB capital infusion might take two years or more to gain traction. China, too, is looking to support its economy with monetary manipulations because it is forecasted that their domestic growth might be at its slowest pace in a quarter-century.

I'll go this way...

And still, even though the trajectory for US interest rates will soon probably be going higher, *deflation* pressures are highest in commodities and energy, and likely to spread into other asset classes. There is still considerable consternation about the effectiveness of raising interest rates at this time.

This observer would argue that *at its best,* previous disciplines designed to create (artificially) low interest rates have simply "maintained" a buttress to potential economic pitfalls, while propelling stock market valuations up to unnecessarily inflated levels. *At worst*, low rates have caused a flow of funds into asset classes that should have depreciated from the weight of their own insignificance or underperformance. By making stocks the only game in town, monetary policy-makers have inverted the reward paradigm and forced many to take on too much risk.

Maintaining a stimulus bias to heighten trade and commercial interests compromised a delicate balance between nations, the result of which was to marginalize the competitiveness of the global trading platform.

All in all, I would contend that the manipulation of interest rates, currency, and capital has created a race *backwards* rather than an incentive-laden competition forwards which benefits investors. A strict adherence to "austerity measures" post-recession has dampened the vibrancy of economic recovery by impeding higher, and more competitive interest rates, thereby depriving many investors a safe haven with maximum return for their cash reserves.

Too many asset classes have indiscriminately rallied because of low rate policies during the last five years. It is interesting that low rates have historically reflected *slow economic growth* and *financial weakness*.....certainly not the situation we are in now. At some point, it would seem, then, that we must reconcile what we know to be true about the economy and policies which stand in direct contradiction

Something is amiss. Markets must find a direction...a theme....and stick with it. Recovery, or no recovery? For many, the data are simply unreliable and counter-intuitive to what they see in their own lives. We must also be aware, however, that these variables can create additional volatility and hesitation in the financial market's daily activity.

Seemingly uncoordinated global economic monetary moves raise the potential for investors to lose patience, perspective, or hope.