

Weekly Market Commentary December 21, 2015

The Markets

After a level of hype that would have exhausted even the most dedicated Star Wars fans, the Federal Reserve finally began to tighten monetary policy last week, raising the funds rate from 0.25 percent to 0.50 percent.¹

Although financial markets appeared sanguine when the rate hike was announced, the calm dissipated quickly. The Standard & Poor's 500, Dow Jones Industrial, and NASDAQ indices finished the week lower. International markets fared better. Most finished the week higher.²

The last five times the Fed has begun to raise rates, the U.S. dollar has remained stable and stock prices have risen, on average, in the months immediately following the hike, according to *The Economist*.³

While tightening monetary policy (and talk of tightening monetary policy) often affects financial markets immediately, economic change happens at a more measured pace. *The Economist* explained:³

“The impact of changes in interest rates is not usually felt on announcement... The response of the real economy also comes with a delay. Most reckon it takes time for monetary policy to shift spending habits, and one rate rise is more an easing of the accelerator than a U-turn. Unemployment continued to fall in each of the past five tightening episodes. That will probably happen again... The most uncertain variable is inflation. This fell rapidly following rate rises in 1983 and 1988 as the Fed established its hawkish credentials. Yet in 2016, the most likely direction for inflation is up (the rate rise is aimed at restraining its ascent).”

Another factor affecting the U.S. and global economies is the price of oil. Last week, *The Wall Street Journal* reported oil prices declined to a new six-year low.⁴ Falling oil prices have contributed to deflationary pressures in Europe, stunting the region's economic recovery.⁵ They have had a mixed affect on the U.S. economy, helping consumers and hurting the energy industry.⁶

Data as of 12/18/15	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-0.3%	-2.6%	-2.7%	11.5%	10.0%	4.8%
Dow Jones Global ex-U.S.	0.4	-8.0	-7.6	-0.4	-0.8	0.5
10-year Treasury Note (Yield Only)	2.2	NA	2.2	1.8	3.4	4.4
Gold (per ounce)	-0.9	-11.4	-11.4	-14.4	-5.1	7.6
Bloomberg Commodity Index	-1.2	-25.8	-28.6	-18.0	-13.2	-7.8
DJ Equity All REIT Total Return Index	1.6	0.6	0.8	10.3	11.9	7.2

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.

SECOND GUESSING THE FED IS AN AGE OLD AMERICAN PASTTIME. Americans have been speculating about the Federal Reserve’s monetary policy choices – rate hikes, rate declines, quantitative easing, etc. – for a long time. It’s clear when you take a look at a few modern Fed Chairs and the Fed’s activities under their leadership.

Paul Volcker (1979-1987) took over an economic quagmire known as The Great Inflation. In the early 1980s, U.S. inflation was 14 percent and unemployment reached 9.7 percent. Volcker unexpectedly raised the Fed funds rate by 4 percent in a single month, following a secret and unscheduled Federal Open Market Committee meeting. His policies initially sent the country into recession. The St. Louis Fed reported "Wanted" posters targeted Volcker for "killing" so many small businesses. By the mid-1980s, employment and inflation reached targeted levels.^{7, 8}

Alan Greenspan (1987-2006) was in charge through two U.S. recessions, the Asian financial crisis, and the September 11 terrorist attacks.⁹ Regardless, he oversaw the country’s longest peacetime expansion. In the late 1990s, when financial markets were bubbly, critics suggested, “...Mr. Greenspan’s monetary policies spawned an era of booms and busts, culminating in the 2008 financial crisis.”⁸

Ben Bernanke (2006-2014) took the helm of the Fed just before the financial crisis and Great Recession. When economic growth collapsed in 2007, the Fed lowered rates and adopted unconventional monetary policy (quantitative easing) in an effort to stimulate economic growth.⁸ In 2012, economist Paul Krugman called Bernanke out in *The New York Times*, “...the fact is that the Fed isn’t doing the job many economists expected it to do, and a result is mass suffering for American workers.”¹⁰

Janet Yellen (2014-present) is the current Chairwoman of the Fed. Under Yellen’s leadership, after providing abundant guidance, the Fed raised rates for the first time in seven years. The *International Business Times* reported several prominent economists think the increase was premature, in part, because there are few signs of inflation in the U.S. economy.¹¹

In many cases, it’s difficult to gauge the achievements and/or failures of a leader – Fed Chairperson, President, Congressman, or Congresswoman – until the economic or political dust settles. Sometimes, that’s long after they’ve left office.

Weekly Focus – Think About It

“We are too prone to judge ourselves by our ideals and other people by their acts. All of us are entitled to be judged by both.”

--Dwight Morrow, former U.S. Ambassador to Mexico¹²

Best regards,

Jim

Feel free to visit our website at:

www.franklin-group.com

Our Wealth Management users can login under the “Client Center” tab.

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.

* Securities offered through MML Investor Services Inc. Member FINRA/SIPC.

*** These views are those of PEAK, and not the presenting Representative or the Representative’s Broker/Dealer, and should not be construed as investment advice.**

* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

* The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks.

* The NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System.

* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.

* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

* Consult your financial professional before making any investment decision.

* You cannot invest directly in an index.

* Past performance does not guarantee future results. Due to ongoing market volatility, current performance may be more or less than the results shown in this white paper.

* To unsubscribe from the “Weekly Market Commentary”, please reply to this e-mail with “Unsubscribe” in the subject line, or write us at Franklin Financial Group, 11350 McCormick Rd. EPIV Ste.200, Hunt Valley, MD 21031.

* Compliance Number: CRN201712-198622

Sources:

¹ <http://www.reuters.com/article/us-usa-fed-idUSKBN0TY2EX20151218>

² http://www.barrons.com/mdc/public/page/9_3063-economicCalendar.html?mod=BOL_Nav_MAR_hpp
(Click on U.S. & Intl Recaps, then on "The long wait (finally) has ended!," and then scroll down to the Global Stock Market Recap chart) (or go to https://s3-us-west-2.amazonaws.com/peakcontent/+Peak+Commentary/12-21-15_Barrons-Global_Stock_Market_Recap-Footer_2.pdf)

³ <http://www.economist.com/news/21684225-economys-reaction-feds-rate-rise-hard-predict-federal> (or go to https://s3-us-west-2.amazonaws.com/peakcontent/+Peak+Commentary/12-21-15_TheEconomist-The_Federal_Reserve_has_at_Last_Raised_Interest_Rates-Footer_3.pdf)

- ⁴ <http://www.wsj.com/articles/crude-rises-modestly-as-u-s-stockpiles-fall-1449743438> (or go to [https://s3-us-west-2.amazonaws.com/peakcontent/+Peak+Commentary/12-21-15_WSJ-Oil Prices Tick Down as Supplies Grow-Footer 4.pdf](https://s3-us-west-2.amazonaws.com/peakcontent/+Peak+Commentary/12-21-15_WSJ-Oil+Prices+Tick+Down+as+Supplies+Grow-Footer+4.pdf))
- ⁵ <http://www.bloomberg.com/news/articles/2015-12-18/german-yield-curve-flattens-as-oil-weighs-on-inflation-outlook>
- ⁶ <http://www.usatoday.com/story/money/cars/2015/12/18/oil-price-fall-economy/77582052/>
- ⁷ <https://www.stlouisfed.org/Publications/Regional-Economist/January-2005/Volckers-Handling-of-the-Great-Inflation-Taught-Us-Much>
- ⁸ http://www.nytimes.com/interactive/2015/12/11/business/economy/fed-interest-rates-history.html?_r=0
- ⁹ <http://www.federalreservehistory.org/People/DetailView/6>
- ¹⁰ <http://www.nytimes.com/2012/04/29/magazine/chairman-bernanke-should-listen-to-professor-bernanke.html>
- ¹¹ <http://www.ibtimes.com/fed-rate-hike-yellen-mulls-liftoff-high-profile-critics-say-its-too-soon-2226193>
- ¹² <http://quoteinvestigator.com/2015/03/19/judge-others/#note-10844-12>