Investment Watch

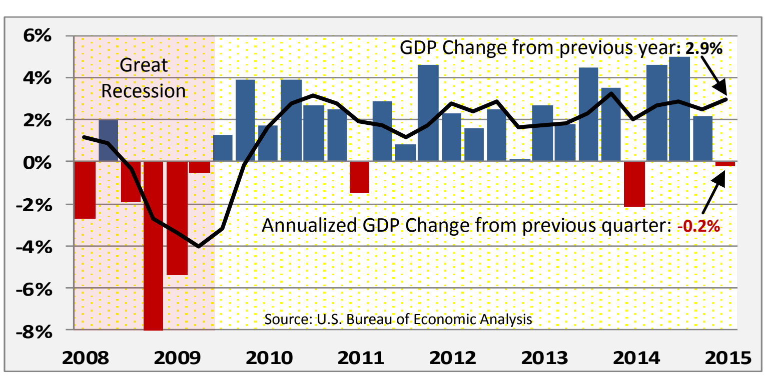
2nd Quarter, 2015

Christmas in July?

Federal Reserve Chairwomen, Janet Yellen, is poised at the end of the takeoff ramp to begin *"gradually"* raising short term interest rates. After more than six years of zero lower bound rates, she knows that it will be a slippery slope to achieve a more normal interest rate environment. The markets are jittery, but the Fed is determined to reassure the investing public that the interest rate increases will be *"gradual"*. To achieve a smooth landing, the Fed and the economy really need the American consumer to start spending like it's **Christmas in July!** Growth will only breakout from this freeze through stronger consumer spending as it represents two-thirds of our total economic output.

Predictions of solid economic growth have been a dime a dozen, but this recovery has stayed on the bunny slope; one of the slowest on record even with the unconventional, experimental easy money the Fed has doled out to boost growth. The Gross Domestic Product (GDP) measures the real growth in our economy and lately it has bounced up and down like the series of bumps on a downhill mogul course. Some believe that our economy is still on thin ice pointing to the negative growth during the last two brutal winters. Others see the potent rebounds from these winter setbacks as a demonstration of our economy's underlying strength.

Just look at how fast Bloomberg changed their outlook in just a few weeks. On April 29th they pessimistically reported that the *"...economy had a disappointing start to 2015...a solid second quarter is looking less and less likely".* An about face on June 11th, they optimistically predicted the *"...growth picture isn't as bad as previously thought…Moreover, the second quarter is starting to look good as well."* The Fed has to sort out the noise from this confusion, but Janet Yellen's reputation as a top forecaster is well deserved and she confidently *"expects economic data to strengthen."*



Yellen foresees the underlying economic strength will soon emerge, but after the previous fits and starts, she first wants to nail the landing. Steady job gains have brought about nearly full employment and elusive wage gains have recently begun to materialize. Higher total wages, low inflation and interest rates, along with cheap gas prices, have all fattened our pocketbooks. But the American consumer has been tightfisted after being snowed in the last two winters and focusing on paying down debt. This may be the time when the US economy finally hits the takeoff ramp, catches air from the updraft of consumer spending, and soars.

Only time will tell, but many pundits believe the freeze is over. The economy is showing *spring-like* signs of strength with automotive sales hitting a record high in May, while last month's existing home sales were surprisingly strong. Business investment is still stuck in a soft patch, but with all the cash hordes corporations have, that may break loose as well.

Last Friday's Wall Street Journal headline, "*Consumers Spend Freely Last Month"*, noted that Americans finally opened their wallets with spending rising by 0.9% in May, the biggest monthly rise in nearly six years! At the same time, the Commerce Department reported that the core personal consumption index, the Fed's preferred inflation gauge, rose only 1.2% in May from a year ago.

The potential positive economic trends and prospect of *"gradual"* rate increases here at home are in stark contrast to the economic slowness and extraordinary monetary easing around the world. It is a global downhill race and the risk of catching an edge is always present. The strong dollar will slow exports, dampening growth, and Greece's potential exit from the Euro Zone will provoke market and political upheaval. But if American consumers stay upbeat, their spending can insulate our economy from these adverse global influences. Next month we may be celebrating **Christmas in July!**

June 30, 2015

EkonBenefits
YOUR TRUSTED PARTNER
4940 Washington Blvd.
St. Louis, MO 63108