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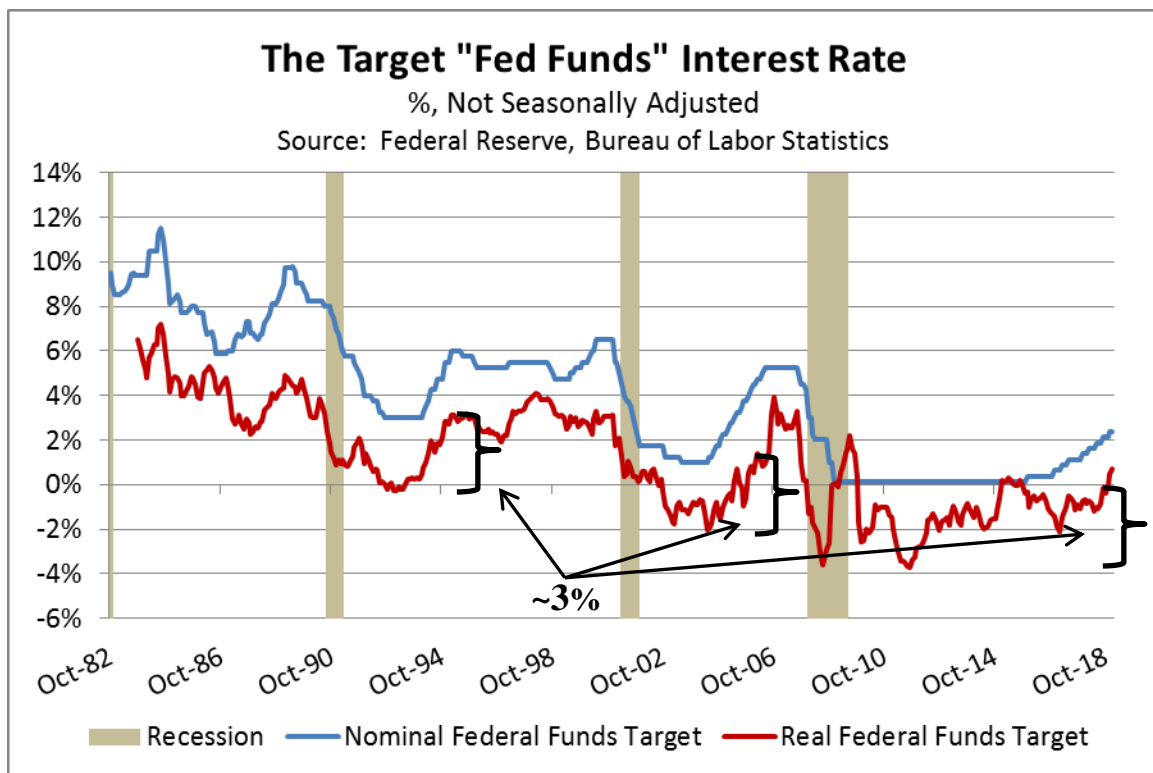
Proactive Investment Management & Financial Planning

## Economic Chart of the Week February 6, 2019

As we often noted during the fourth-quarter stock market correction, the strong stock selling seemed out of sync with the positive tenor of most U.S. economic data at the time. The good economic fundamentals help explain why the market is now rebounding so nicely. Still, we're always trying to improve our ability to "read the tea leaves" and gauge what the future holds. We've therefore been scouring the data to see if there was anything that might have told us the correction was coming.

A key reason for the correction was fear of the Federal Reserve's interest-rate hikes, but we correctly noted that the pace of the rate hikes was quite moderate, while the benchmark "Fed funds" rate was still historically low. What may have spooked the market in late 2018 was that the ***inflation-adjusted*** Fed funds rate had already risen about as far as it normally does during a Fed rate-hiking campaign, and yet the policymakers were still signaling their intent to hike rates further. As shown in this week's chart, the inflation-adjusted Fed funds rate rose almost 3.0% from January 1994 to February 1995, and from May 2004 to June 2006. During the current cycle, the inflation-adjusted rate reached a low of -3.743% in September 2011. The rate temporarily jumped to about 0.0% in early 2014, but it wasn't consistently 3.0% higher than the cycle low until mid-2018. Was that what spooked the market so much? There's no way to be sure, but it's an intriguing possibility. Going forward, we plan to more closely watch the total rise in the inflation-adjusted Fed funds rate in case it can give us an earlier warning of the next market correction.

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