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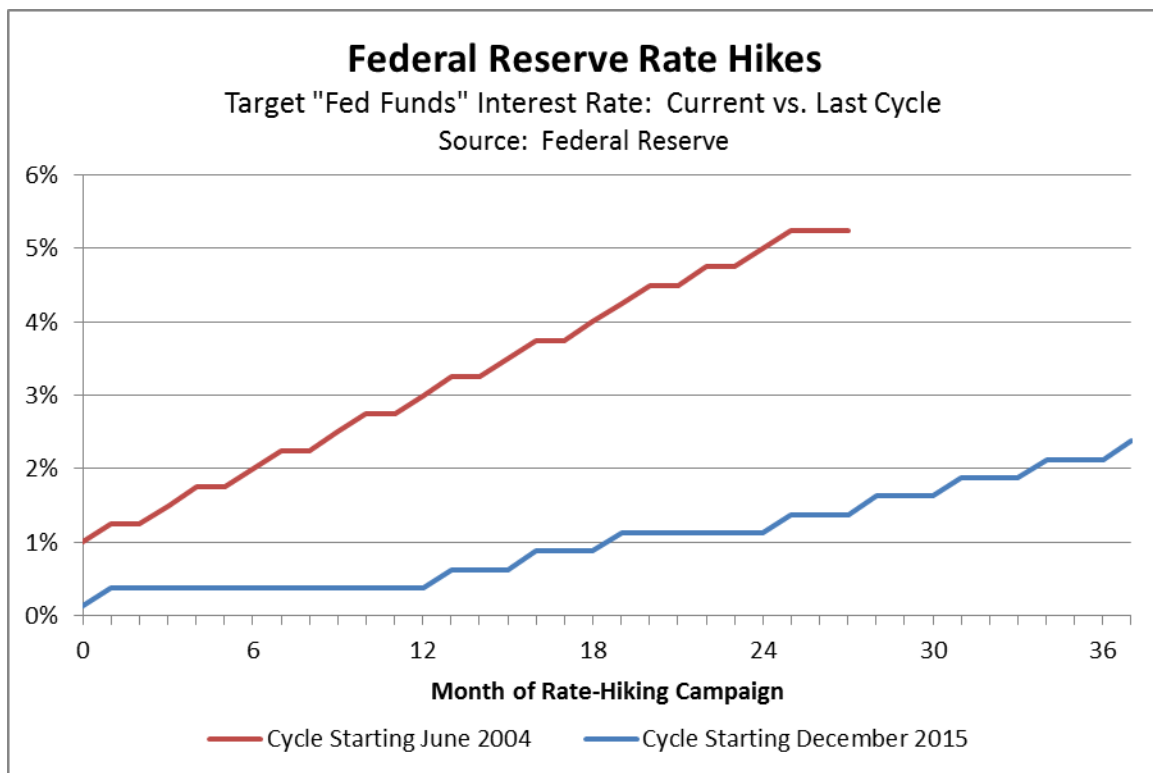
Proactive Investment Management & Financial Planning

Economic Chart of the Week December 19, 2018

We think the current correction in the stock market stems primarily from investor concerns about the Federal Reserve's on-going program of interest-rate hikes. Investors fear those rate hikes will slow the economy too much, or may have already done so. The intriguing thing is that the current rate-hiking campaign is actually quite slow and mild compared with recent history.

This week's chart shows the progression of the Fed's benchmark short-term interest rate during the previous cycle, which started in June 2004 (red line), compared with the progression during the current cycle, which started in December 2015 (blue line). In the previous cycle, the policymakers hiked their benchmark rate by a total of 4.25% over 25 months. In this cycle, the policymakers have hiked the target rate by just 2.25% so far, and they've taken over 37 months to do so. Even with today's hike in the benchmark rate – to a range of 2.25% to 2.50% – interest rates remain historically very low. We do think rising inflation and higher interest rates present risks to the economy, but we believe most of the problems they could cause would come farther down the road. If we're right about that, the current stock selling has probably been excessive, and equities should be able to rebound from here. However, we can't totally reject the possibility that even today's low rates are too much for an economy that has lost a lot of dynamism since the Great Recession. That risk is an important reason why we're watching the economic data closely to see if we need to reduce our exposure to stocks again, as we did back in August, even though such a move would be earlier than planned.

Patrick Fearon, CFA
Chief Investment Officer



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