

# Business

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## Climate change?!

**N**o, this is not about temperatures and carbon emissions. It's about the financial climate. It may or may not be changing.

Last week the Fed raised the federal funds rate by 25 basis points, the first increase in nearly a decade. Home equity lines of credit and variable rate loans will become a little more expensive, with an emphasis on "little."

Fed Chair Janet Yellen estimated that the federal funds rate would rise to 1.38



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percent by the end of next year, which reflects four more hikes. The market expects less.

Year after year, the Fed's economic forecasts have been overly optimistic. Once again, they expect economic growth to accelerate, but we've heard that before. Between 1950 and 2000 real GDP growth averaged 3.5 percent annually.

Since 2000 it's averaged 1.7 percent. Since the bottom of the recession in 2009, a bounce-back period in which growth should have been far greater than average, it has been a paltry 2 percent, which some now call the "new normal." Heaven help us if that's true.

The market expects low rates for some time to come. Why else would REITs and utilities be two of the market's strongest sectors? High-yield bonds (aka "junk") are down due to a perception that credit risk is rising in what will be a slowing economy.

Speaking of high-yield bonds, the media describe the selling using words like plummet, collapse, panic, illiquidity, etc. Here's some perspective. For the year, SPDR Junk Bond ETF (JNK) is down 13%. Factoring in dividends the decline is seven percent. That's bad, but a "rout?" No.

I, too, agree that rates will stay low. There will be no catalyst for that, not rising inflation, not a hot economy, not a sinking dollar. More likely the short-term effects on the currency and financial markets of the first few boosts will inhibit the scope and speed of future rate increases.

If I'm right that the economy will continue to creep along, or even slow, then the climate may not be changing. Preferreds yielding 6 percent or more will be low-risk alternatives whose returns will top most stocks, just as they did this year.

The investment grade preferreds are stable and seldom move more than a little except when interest rates are rising or falling a lot. Not likely. Next week I'll cover these investments in more detail. Merry Christmas! Be healthy and be safe.

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