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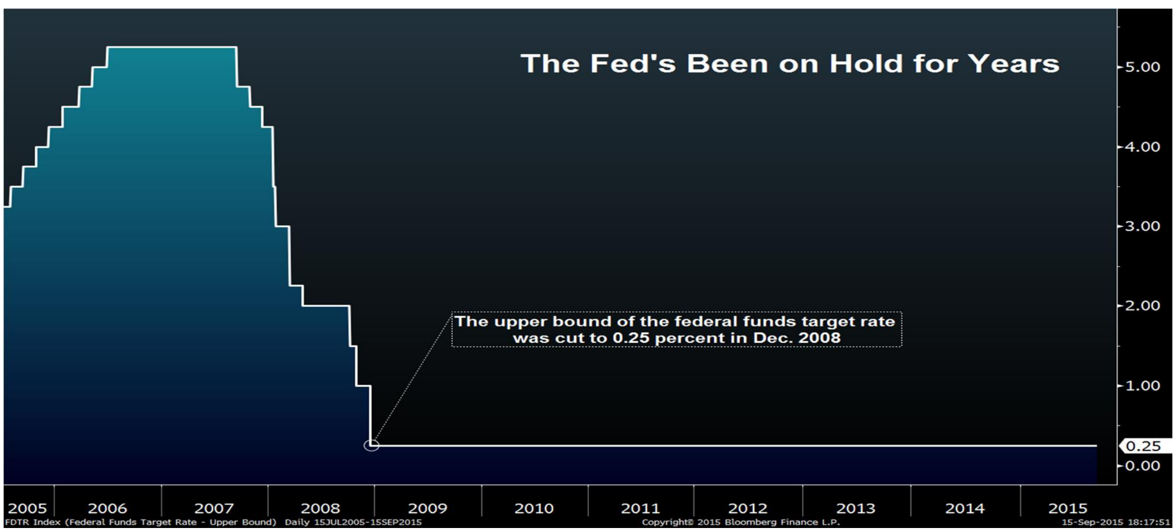
Good Evening,

Tomorrow, the Federal Reserve Bank's Open Market Committee begins its 2-day monetary policy meeting.

This confab of convening Fed governors comprises the voting block that determines our domestic interest rate direction.

The results of this meeting, announced on Thursday at 1:00PM CT, are both highly anticipated and hotly contested.

Interest rates in the United States have been really low for a really long time. So long, in fact, it has been almost a decade since the Fed last raised rates, and almost exactly 8 years since they began successively *cutting* rates, endeavoring to stimulate a sagging economy, (see below from Bloomberg Market Data).



The last 7 years can be described only as a period of deep inertia, or paralysis, logically leading to liveliness, correct? I mean, much has improved since the days of the credit crisis, necessitating a more progressive policy right?

Well perhaps not so fast. As the headlines below attest, indecision and dissension best define the disposition of the deliberators:

Fed's Powell Sees Potential for Rate Rise by September – Wall St. Journal, 6/23/15
Fed Governor Lockhart: Fed 'close' to hiking interest rates – CNBC, 8/10/15
Fed's Evans: Why rate hikes should wait until 2016 – CNBC, 5/7/15
Fed's Kocherlakota: Don't Touch Interest Rates Yet – Fox Business, 08/28/15

Not to be outdone, or front-run, by the actual adjudicators, the financial markets have laid their own odds on the outcome of Thursday's meeting.

As the table below indicates, 28% of Fed Funds Futures traders (and you thought there was minutiae in your job!?) are predicting that interest rates will rise on Thursday.

United States | Instrument Futures: Fed Funds

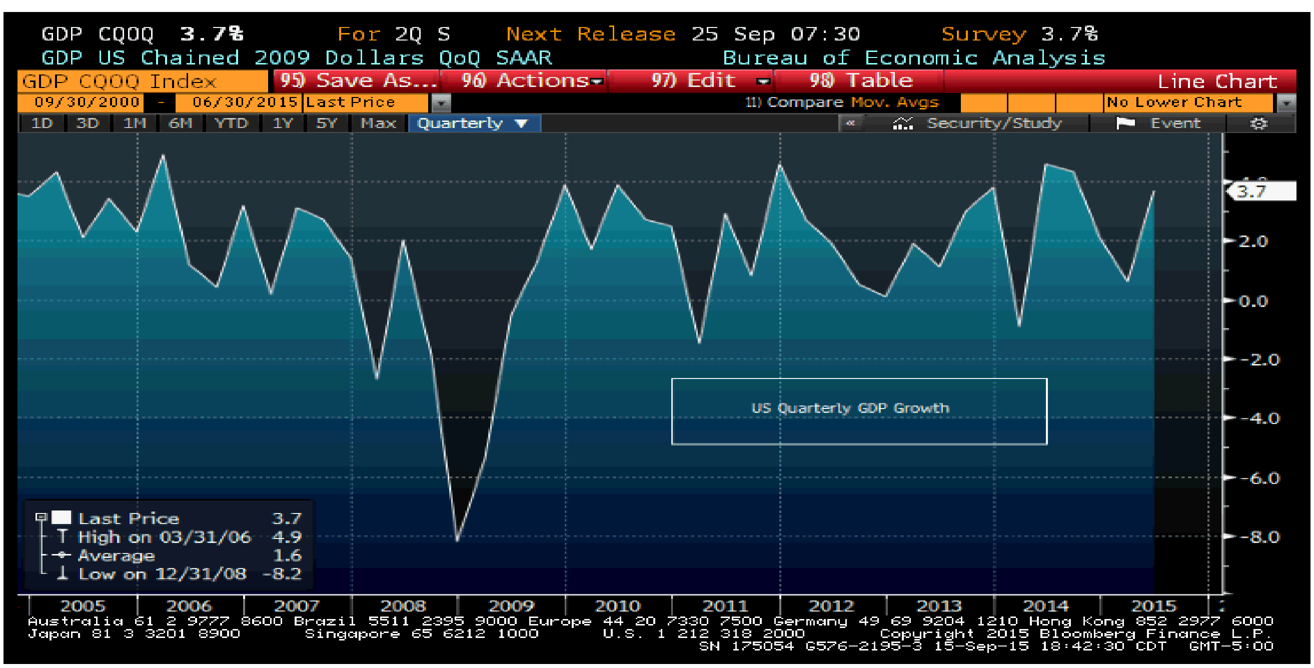
1) Overview | 2) Future Implied Probability

Current Implied Probabilities | 3) Add/Remove Rates

Dates: Meeting / Calculation | Calculated 09/15/2015

Meeting	Prob Of Move	0-0.25	0.25-0.5	0.5-0.75	0.75-1
09/17/2015	28.0%	72.0%	28.0%	--	--
10/28/2015	41.0%	59.0%	35.9%	5.0%	--
12/16/2015	63.4%	36.6%	44.7%	16.8%	1.9%
01/27/2016	70.0%	30.0%	43.2%	21.8%	4.6%
03/16/2016	80.2%	19.8%	38.7%	29.1%	10.4%
04/27/2016	83.4%	16.6%	35.7%	30.6%	13.4%
06/15/2016	89.7%	10.3%	28.5%	32.6%	20.0%
07/27/2016	92.0%	8.0%	24.5%	31.7%	22.7%
09/21/2016	94.8%	5.2%	18.6%	29.1%	26.0%
11/02/2016	96.2%	3.8%	15.0%	26.2%	26.8%

And please understand, by "rise", we are talking in quarters of a percentage point. Not large moves by any measure and arguably rational and reasonable given the level of identifiable economic improvement (see GDP chart from Bloomberg below) since coming to rest at the current "zero bound" level.



However, the results of the Deflategate hearing were infinitely more predictable than the anticipated utterances from Fed Chairperson Yellen in a couple days.

So why the divided viewpoint? What gravity does this statement hold to entrench the competing camps?

Below are excerpts from 2 well-respected sources painting the posture of each posse.

First, a September 9th research piece from Joseph LaVorgna of Deutsche Bank AG, entitled:

"Seven Reasons the Fed Won't Raise Rates Next Week"

1. **Global Stock Markets are Fragile;**
2. **The Fed's preferred gauge of the dollar, the trade-weighted broad dollar index, continues to strengthen;**
3. **Financial Markets aren't pricing in a rate hike (*he actually references the same 28% odds in the Fed Funds Futures market as we do above*);**
4. **Key members of the Federal Open Markets Committee appear to be backtracking from a September move;**
5. **The Fed still has two more opportunities to raise rates this year;**
6. **Because there are still those two meetings left, the Fed doesn't see any risk of losing market credibility:**
7. **There's no sign of prices picking up (*inflation*) any time soon:**

   For a full transcript of the article, go to: http://www.bloomberg.com/news/articles/2015-09-09/seven-reasons-the-fed-won-t-raise-rates-next-week-deutsche-bank

Next, from Barron's:

"3 Reasons the Fed Will Raise Rates This Week"

1. **Central banks hate being pushed around;**
2. **President Donald J. Trump** (this one probably deserves additional support…)"The U.S. is gearing up to elect a new president next November. This is arguably the last time the Fed can start its so-called "liftoff" before the candidates of both parties begin the debates that signal the campaign has begun in earnest. So raising rates now would get it out of the way before the Fed could be accused of influencing the election";
3. **Relief….."**A rate hike at this point only confirms what markets have been anticipating. And once the terrifying lift-off to 0.5% is out of the way, markets will be able to relax in the comfort that the next rate hike is no longer imminent, but far, far away."

   For a full transcript of the article, go to: http://www.barrons.com/articles/3-reasons-the-fed-will-raise-rates-this-week-1442199560

As you can see, both sides possess cogent arguments to support their perspective. And depending upon the mood of the markets, the sun has shone intermittently upon each in recent weeks.

Certainly the absence of perfect insight and information has catalyzed the recent market volatility. Add to that the intensity of a 24-hour news cycle and the average investor is led to believe that this is an all-or-nothing proposition, something we've referred to in the recent past as a "binary proposition." We do not believe it to be so.

While we do not have any clearer a crystal ball than the pondering Fed Heads, we are reasonably confident of one thing: whatever the Fed decides on Thursday, the attendant statements, framing and foreshadowing will lean hard in the *opposite* direction.

Should the Fed raise rates by 0.25% (or less….who is to say that they won't raise rates by 1/8th of a point, or 0.125% like they did in 1986?!) we think there will be much attention paid to the vigilance in monitoring any and all developments necessary to do any more raising well ahead of it materializing.

Should the Fed pass on a rate rise (they cannot lower rates at this point, per the aforementioned current condition being known as "zero-bound") we think they will implore financial markets to pay heed to the prospects of the immanency of the blessed event in the not-too-distant future.

We'll keep in touch this week as the meeting comes to a conclusion and we continue to trust in 2 enduring properties of financial markets: adaptability and resiliency.

Have a great night, dc