

Previewing the Fed

December 2016



KAVAR
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Market's Expectations

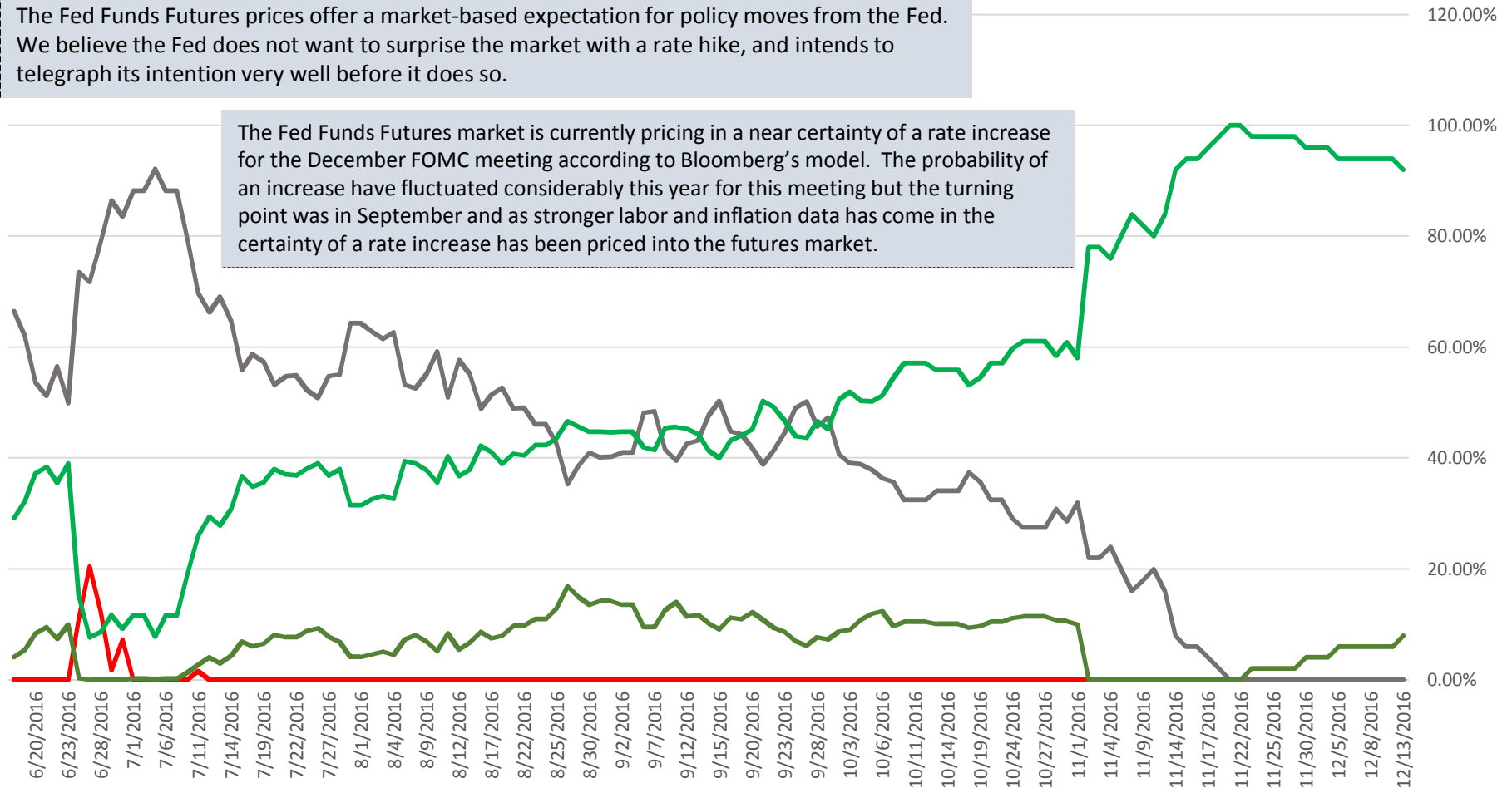


Bloomberg World Interest Rate Probabilities: Fed Funds 12/14/16 FOMC Action

— 25 bps Cut — No Action — 25 bps Hike — 50 bps Hike

The Fed Funds Futures prices offer a market-based expectation for policy moves from the Fed. We believe the Fed does not want to surprise the market with a rate hike, and intends to telegraph its intention very well before it does so.

The Fed Funds Futures market is currently pricing in a near certainty of a rate increase for the December FOMC meeting according to Bloomberg's model. The probability of an increase have fluctuated considerably this year for this meeting but the turning point was in September and as stronger labor and inflation data has come in the certainty of a rate increase has been priced into the futures market.

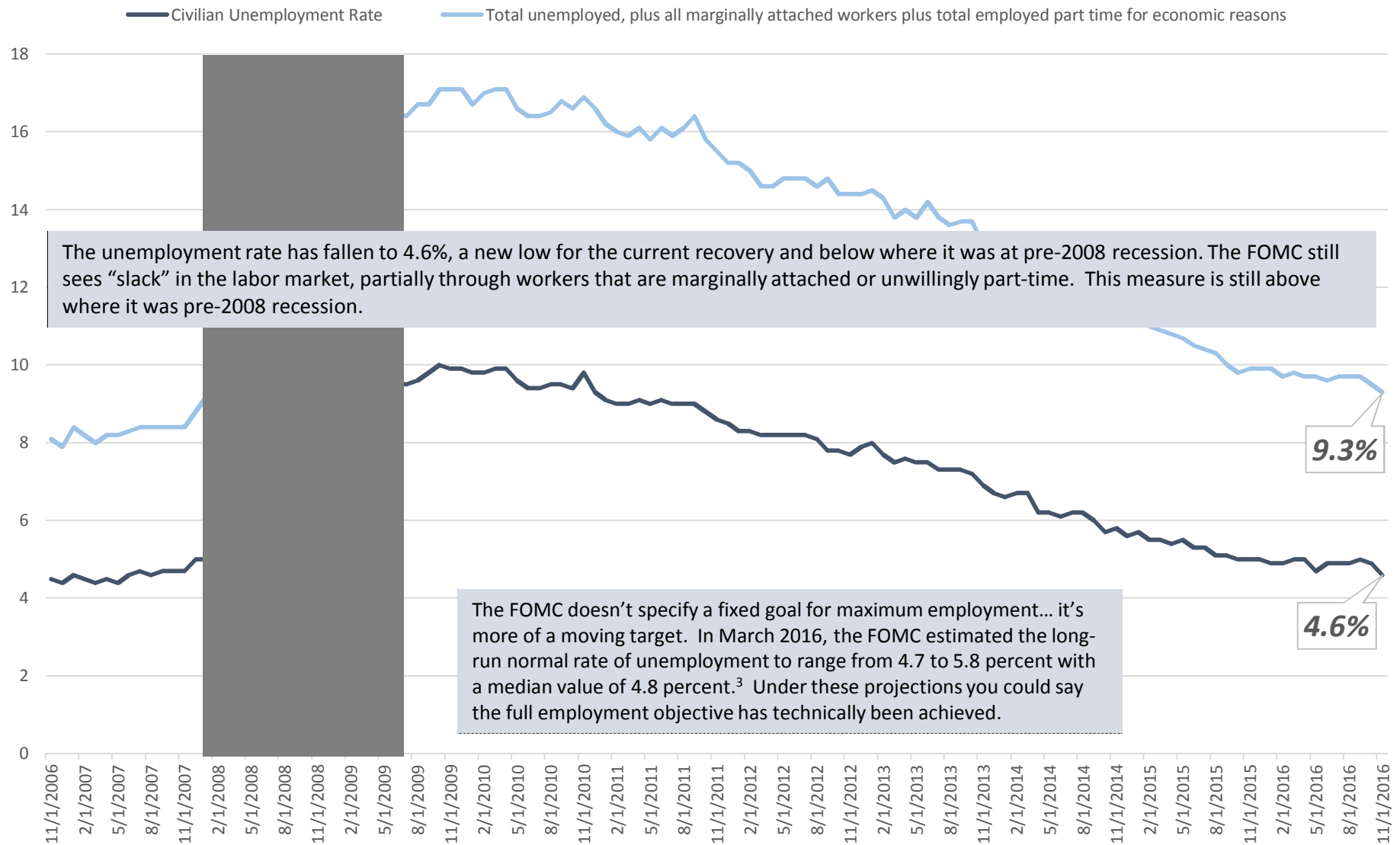


Source: Bloomberg as of 12/13/16

Investors cannot invest directly into an index and advisors cannot mirror an index. Any performance quoted is past performance and is not a guarantee of future results. Diversification does not guarantee investment returns and does not eliminate the risk of loss. Individual results will differ based upon asset allocation, timing and fees.

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Jobs: Unemployment Rate



Source: Fred - Federal Reserve Bank of St. Louis Economic Data ^{1,2} (Graph Data), Federal Reserve³

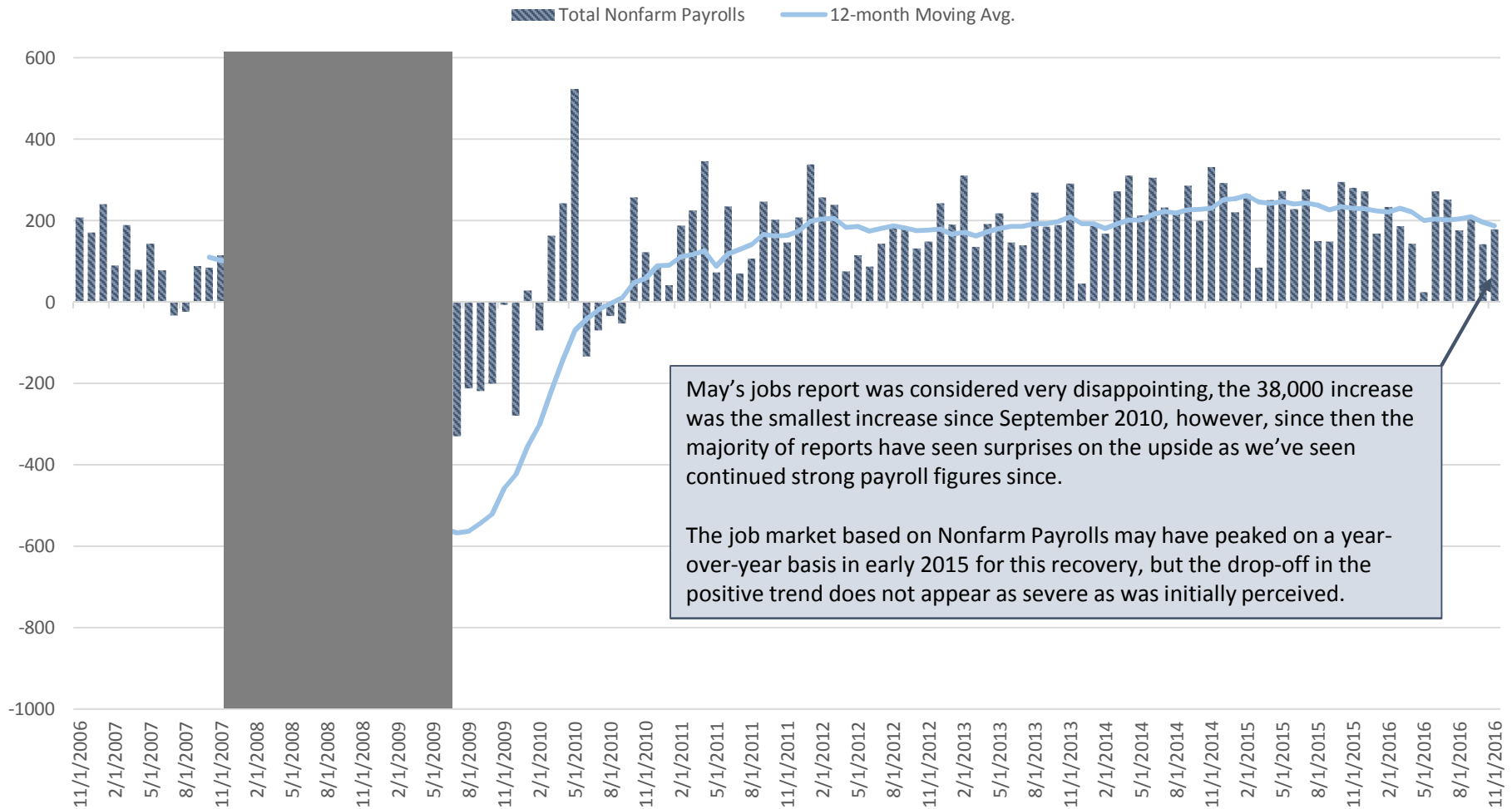
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Jobs: Change in Non-Farm Payrolls



Total Nonfarm Payrolls
Change, Thousands of Persons, Seasonally Adjusted



May's jobs report was considered very disappointing, the 38,000 increase was the smallest increase since September 2010, however, since then the majority of reports have seen surprises on the upside as we've seen continued strong payroll figures since.

The job market based on Nonfarm Payrolls may have peaked on a year-over-year basis in early 2015 for this recovery, but the drop-off in the positive trend does not appear as severe as was initially perceived.

Source: Fred - Federal Reserve Bank of St. Louis Economic Data⁵

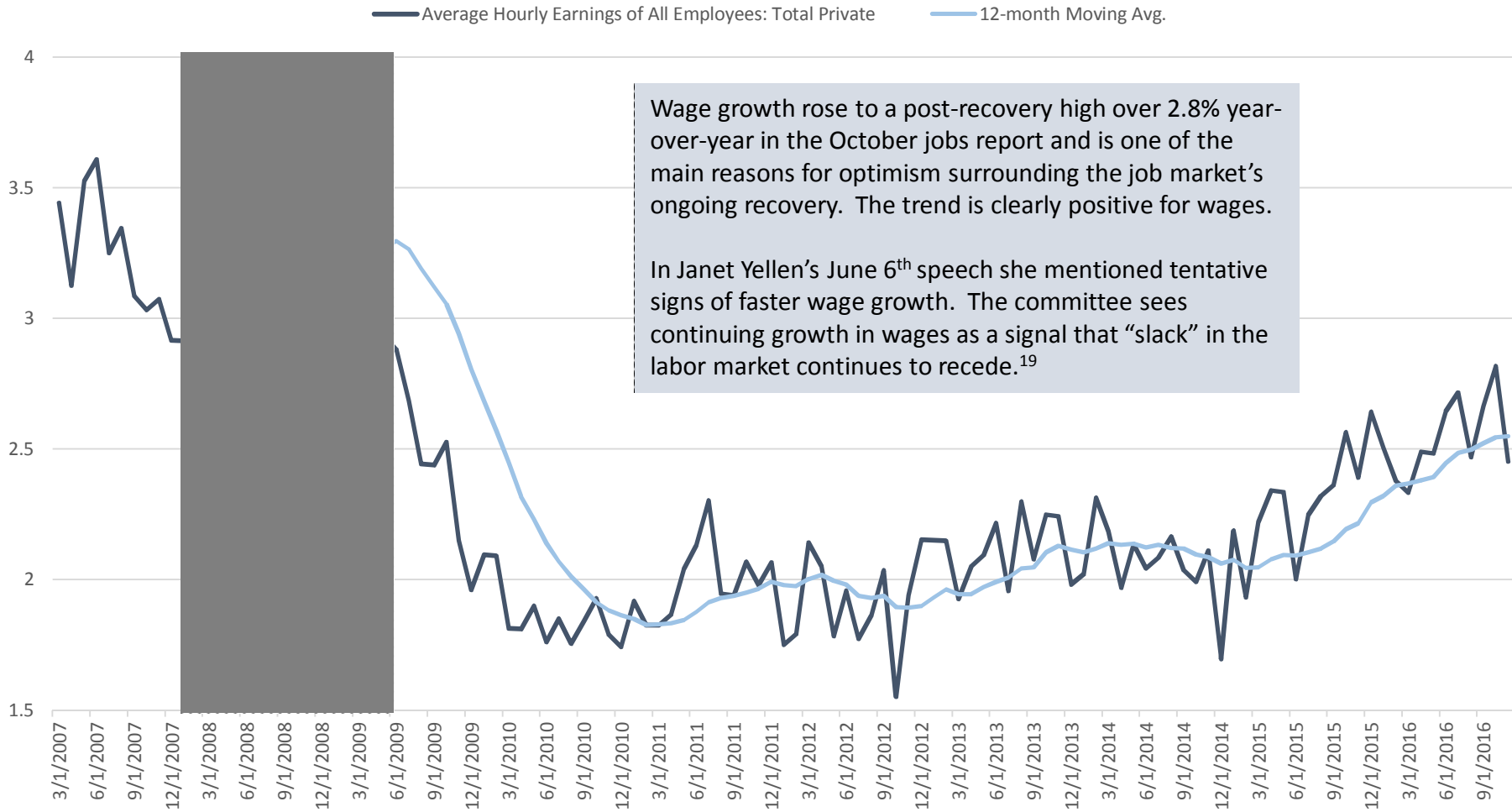
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Jobs: Wage Growth



Average Hourly Earnings of All Employees: Total Private
Percent Change from Year Ago



Source: Fred - Federal Reserve Bank of St. Louis Economic Data⁷

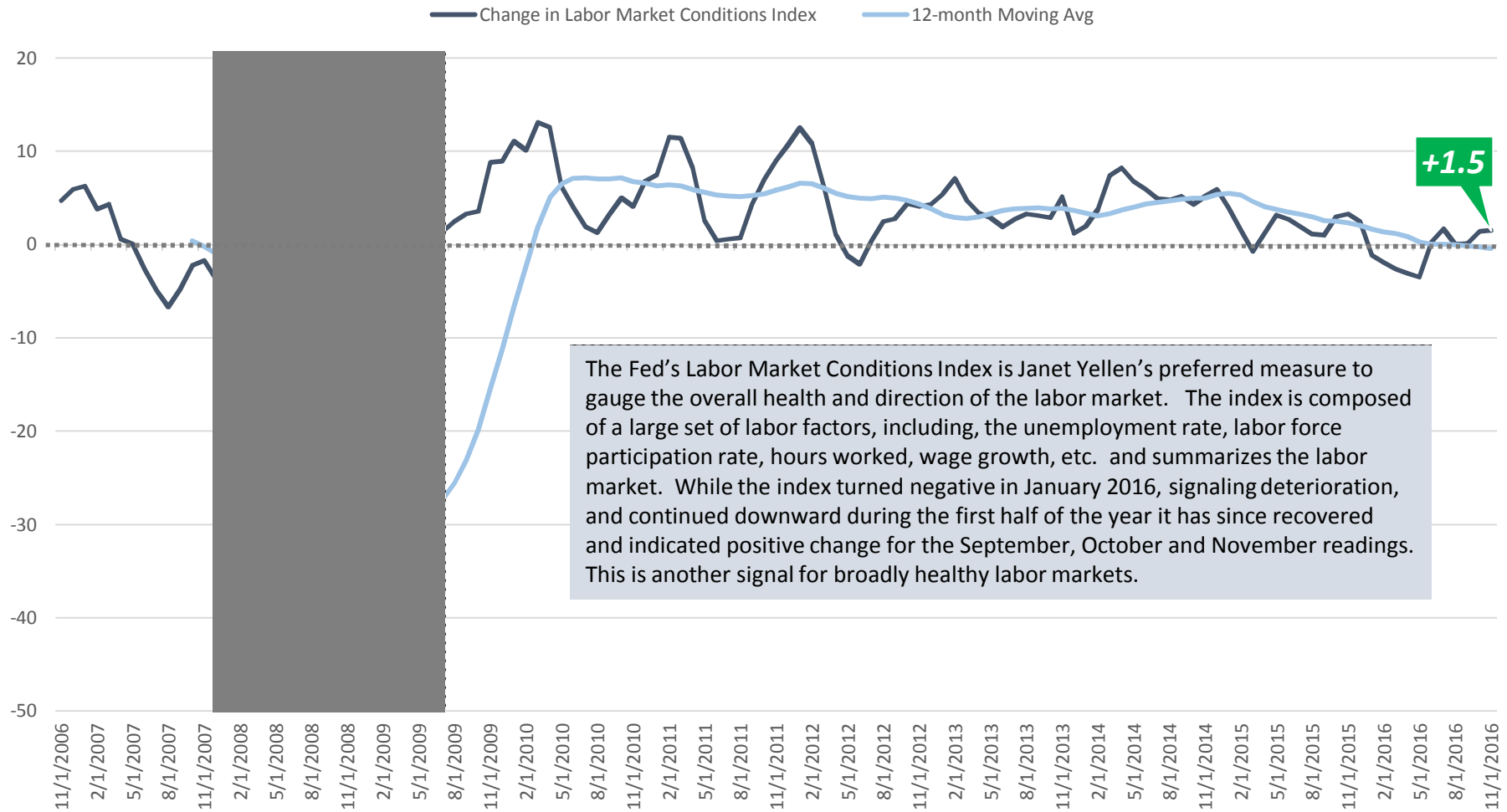
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Jobs: Labor Market Conditions Index



Change in Labor Market Conditions Index
Index Points, Seasonally Adjusted

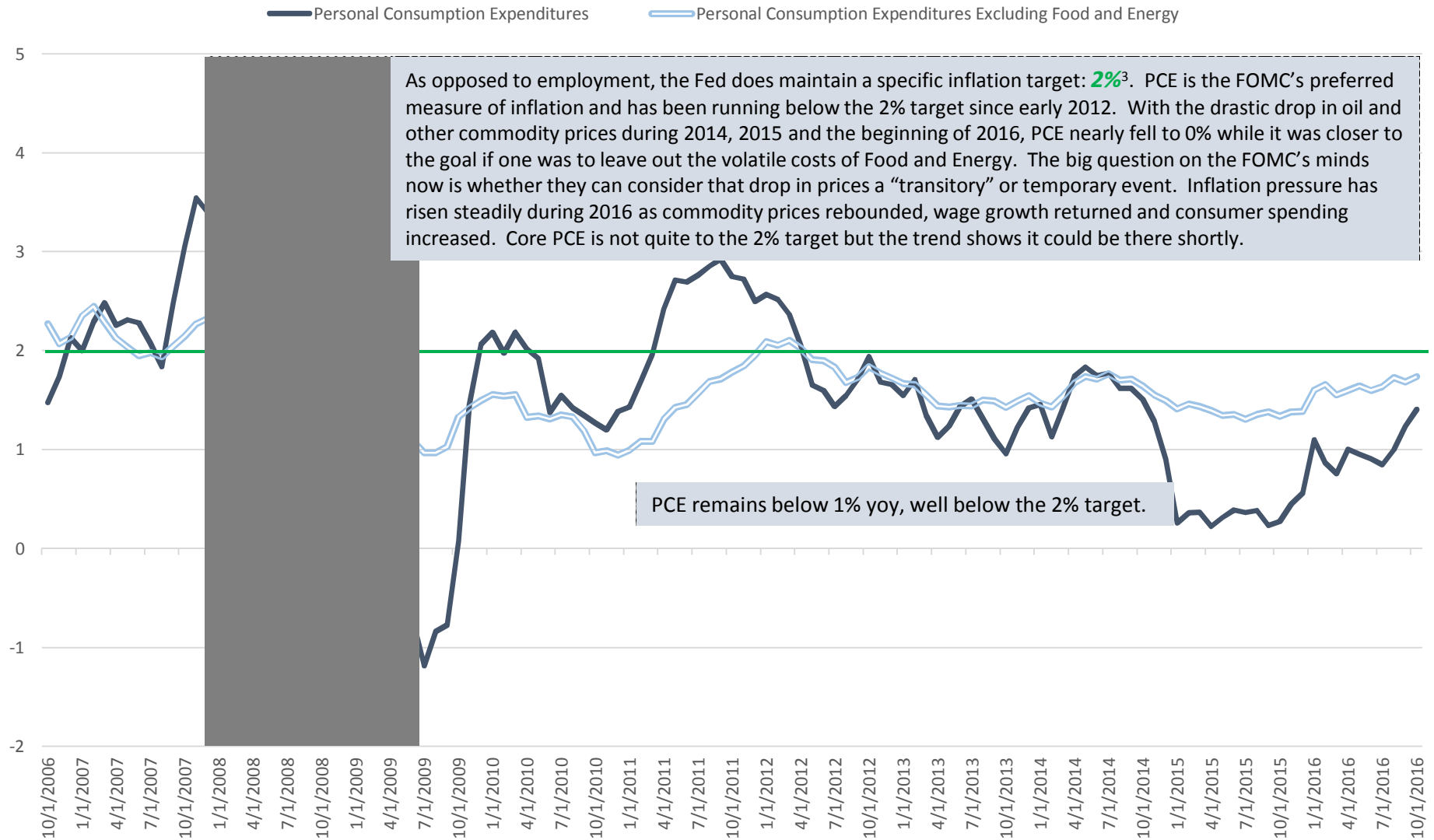


Source: Fred - Federal Reserve Bank of St. Louis Economic Data⁸

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Inflation: PCE

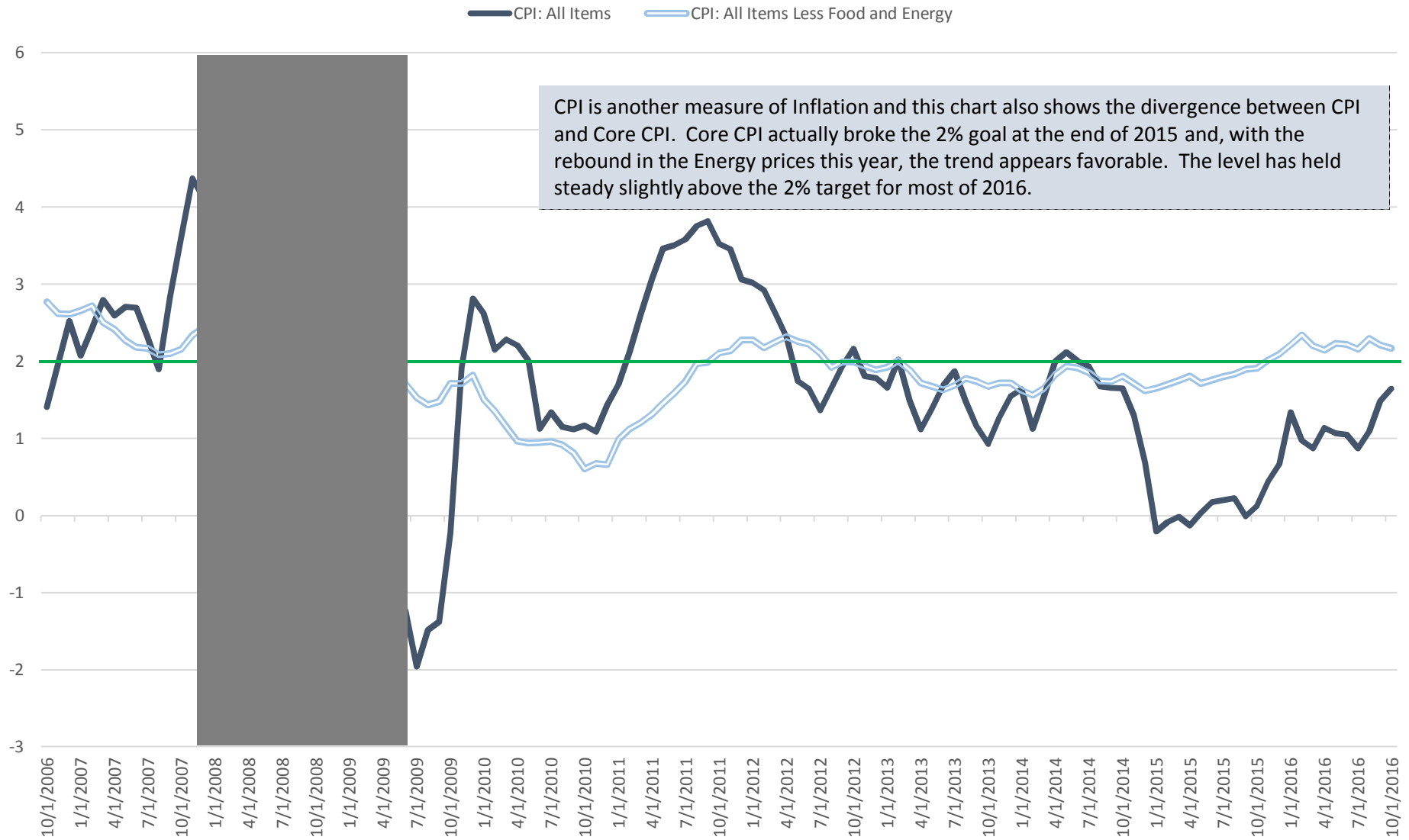


Source: Fred - Federal Reserve Bank of St. Louis Economic Data ^{9,10}

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Inflation: CPI

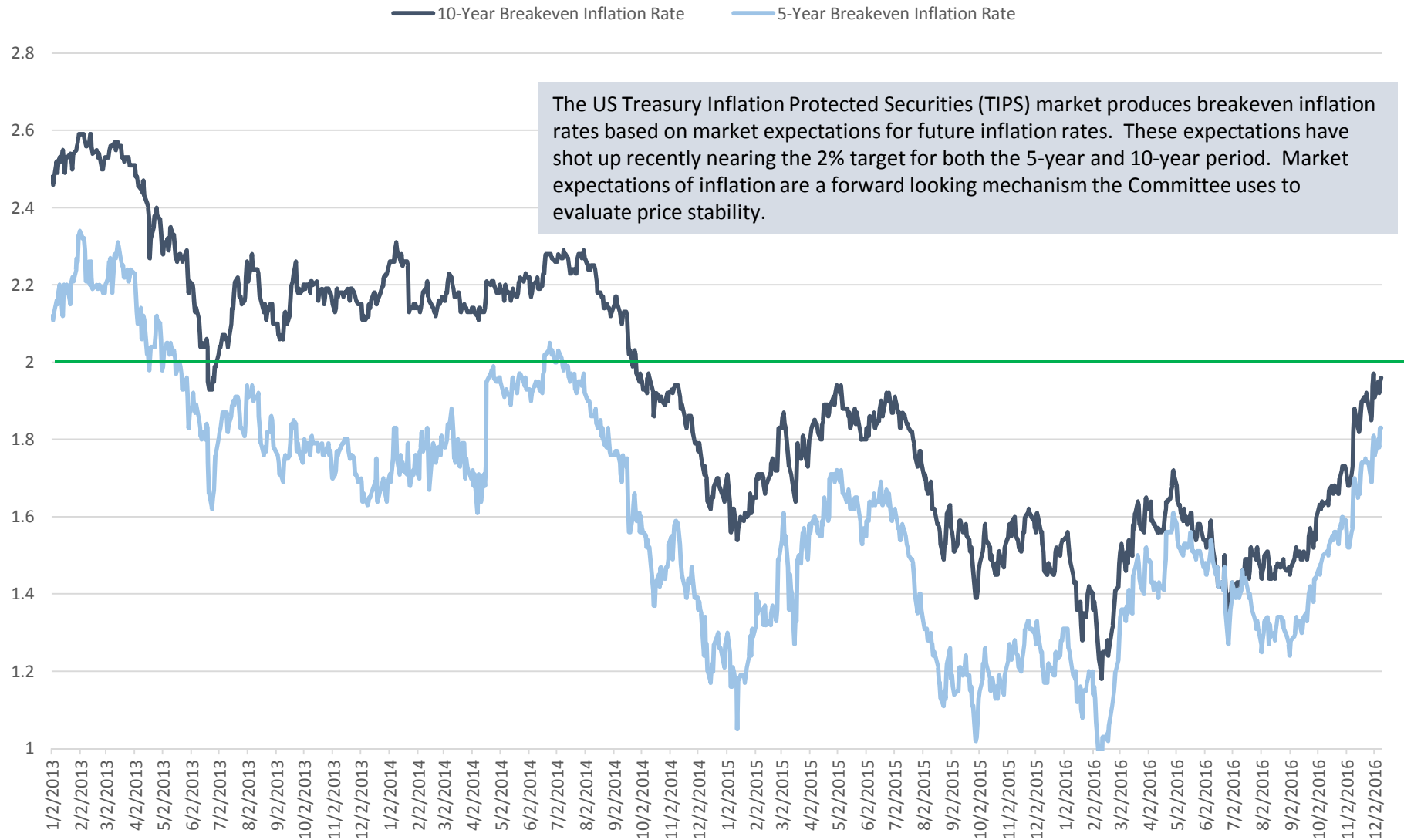


Source: Fred - Federal Reserve Bank of St. Louis Economic Data¹⁴

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Inflation: TIPS Breakeven



The US Treasury Inflation Protected Securities (TIPS) market produces breakeven inflation rates based on market expectations for future inflation rates. These expectations have shot up recently nearing the 2% target for both the 5-year and 10-year period. Market expectations of inflation are a forward looking mechanism the Committee uses to evaluate price stability.

Source: Fred - Federal Reserve Bank of St. Louis Economic Data¹⁵

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Important Disclosures

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Footnotes

1. <https://research.stlouisfed.org/fred2/series/UNRATE>
2. <https://research.stlouisfed.org/fred2/series/U6RATE>
3. https://www.federalreserve.gov/faqs/money_12848.htm
4. <https://research.stlouisfed.org/fred2/series/CIVPART>
5. <https://research.stlouisfed.org/fred2/series/PAYEMS>
6. <https://www.federalreserve.gov/newsevents/speech/yellen20160606a.htm>
7. <https://research.stlouisfed.org/fred2/series/AHETPI>
8. <https://research.stlouisfed.org/fred2/series/FRBLMCI>
9. <https://research.stlouisfed.org/fred2/series/PCECTPI>
10. <https://research.stlouisfed.org/fred2/series/PCEPILFE>
11. <https://research.stlouisfed.org/fred2/series/T10YIE>
12. <https://research.stlouisfed.org/fred2/series/T5YIE>
13. <https://research.stlouisfed.org/fred2/series/TWEXB>
14. <https://fred.stlouisfed.org/series/CPIAUCSL,CUUS0000SA0L1E>
15. <https://fred.stlouisfed.org/graph/?id=T10YIE,T5YIE>
16. <https://www.federalreserve.gov/newsevents/speech/2016speech.htm>
17. <http://www.federalreserve.gov/newsevents/speech/yellen20140822a.htm>



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