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Weekly Investment Commentary

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Stocks Rally on Fed Interest Rate Decision

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Stocks around the globe rallied this past week after the U.S. Federal Reserve announced that its Federal Open Market Committee ("FOMC") – the committee that determines the Fed's monetary policy – decided to maintain its target range for the federal funds rate at 1/4 to 1/2 percent even though the Fed claimed in its statement to the press that "the case for an increase in the federal funds rate has strengthened".

Stocks were also buoyed by an announcement from the Bank of Japan ("BOJ") this past Thursday, whereby the BOJ said that will keep its key deposit rate unchanged at minus 0.1%, implement measures to keep longer-term interest rates near zero percent and continue to increase the amount of loanable funds offered by Japanese commercial banks.

In regard to the Federal Reserve's interest-rate decision, the Fed made several false and misleading comments in its statement to the press this past Wednesday. For example, the Fed said the following:

- The labor market has continued to strengthen.
- Growth of economic activity has picked up from the modest pace seen in the first half of this year.
- Job gains have been solid.
- The case for an increase in the federal funds rate has strengthened.

The Labor Market Situation and Job Gains

In regard to the labor market supposedly strengthening and job gains being "solid", just the opposite occurred over the past several months. For example, only 151,000 new jobs were created, on a seasonally-adjusted basis, during August, which is substantially few jobs than the 200,000-250,000 new jobs that need to be created every month, according to numerous economic studies, just to keep pace with the United States' growth in population.

Secondly, the number of job advertisements posted on Internet web sites declined substantially over the past nine months, indicating that fewer new jobs will be created through the remainder of this year than during June and July, when a healthy number of new jobs were created. And, the weekly number of hours worked by manufacturing production workers, which has historically been a reliable leading indicator for both the employment market and the entire U.S. economy, declined during August.

The employment statistics mentioned above indicate clearly that the labor market has NOT continued to strengthen and that job gains have NOT been solid.

Economic Growth

Although the United States' pace of economic growth rose for the quarter ended June 30, 2016, as compared to the prior quarter, its pace of economic growth declined, on a year-over-year basis, for the fifth consecutive quarter for the three months ended June 30, 2016. Looking forward, the readings on numerous economic indicators suggest that the country's pace of economic growth will continue to decline during the quarter ending September 30, 2016.

Hence, in direct contrast to the Fed's claim that "the case for an increase in the federal funds rate has strengthened", the economic factors and developments mentioned above suggest that the case for an increase in the Fed Funds rate has weakened. I would argue that is the real reason that the Fed decided to maintain the target range for its overnight lending rate – the federal funds rate – at 0.25%-.05%.

Economic Developments Abroad

In regard to economic developments abroad, data released this past week indicate that economic conditions are improving and that the pace of economic growth will increase over the next few months in the Eurozone and Japan.

For example, Eurostat, the statistical office of the European Union, reported on September 19 that spending on Eurozone construction projects increased sharply during July, the latest month for which data are available, rising by 3.1%, as compared to the same month a year ago. Considering the fact that construction spending is a reliable leading economic indicator, last month's sharp increase in the region's construction spending bodes well for the future direction of the Eurozone economy.

Meanwhile, Markit Financial Information Services reported on Friday that manufacturing activity in the Eurozone increased at a faster pace during September, after rising during each of the past 39 months. That's a very positive development because the Eurozone economy and Eurozone stocks tend to move in the same direction as the regions' manufacturing activity.

Separately, Japan's Customs Office reported on September 20 that the country's exports declined substantially less during August than during the prior month, and Markit Financial Information Services reported on Friday that manufacturing activity in Japan rose during September for the first time since February, indicating that the country's pace of economic growth will increase over the next couple of months.

Although there weren't any significant economic announcements this past week regarding economic developments in China, India and Brazil, the latest readings on several economic indicators suggest that economic conditions in those countries will improve and that the pace of economic growth in China, India and Brazil will increase over the next few months.

Investment Advice

As a result of the worsening readings on economic indicators for the United States, I'm advising my firm's clients and persons who subscribe to our ***Weekly Investment Commentary*** to continue to allocate the majority of their financial market assets to cash-like investments (i.e. money-market securities) and to a few relatively-safe, yet high-paying dividend securities, including **Gabelli Equity Trust Inc. Series H Cumulative Preferred Stock (GAB-PH)**, **Welltower Inc. (HCN)**, and **Nuveen S&P 500 Buy-Write Income Fund (BXMX)**.

With our research indicating that oil and gas prices will trend higher over the next 12-18 months and that the exchange value of the U.S. dollar will move lower over the next few weeks, I'm also advising our clients and subscribers to continue to hold their positions in **JPMorgan Alerian MLP Index ETN (AMJ)** and **E-TRACS Alerian MLP Infrastructure ETN (MLPI)**.

In regard to the improving readings on economic indicators for the Eurozone, Japan, China, India and Brazil, I'm monitoring several stocks and ETFs that look as if they'll offer some good buying opportunities during the year ahead. However, because those regions of the world tend to be impacted substantially by economic and financial market developments in the United States, I'll likely not recommend for our clients and subscribers to invest in any of those stocks and ETFs until our research indicates that the U.S. economy will improve substantially and that U.S. stocks will trend substantially higher than their current levels.

Click here and complete the form that loads on our Internet Web site if you would like for us to tell you when our research indicates are opportune times to invest in stocks and ETFs that we're monitoring.

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