

Wait for it...

"I've got a message for your friend Jim Cramer. The Fed cannot permanently raise stock prices. The idea that the Fed is going one way or the other, and this is what's driving the stock market, is not true. He's one of the great people at looking at businesses, how good is this business, what's the profitability of the business, what's this thing worth? And to have him cheerleading for lower rates 24-hours a day is, I think, unsavory."---James Bullard, St. Louis Federal Reserve President, in reference to CNBC stock market pundit Jim Cramer. 1st September 2015

So, another Federal Reserve meeting and another passed opportunity to raise interest rates. The fighting talk (above) from James Bullard quite possibly illustrates the frustration held by those behind the closed doors of the Federal Reserve that they are not going to get pushed around by stock and bond market participants struggling with volatile price movements – something, incidentally, which the Federal Reserve is supposed to have a hand in stabilising.

Still, whether or not one connects the dots up sufficiently to blame the Chinese stock market correction

as something ultimately made in the USA, the timing of the turmoil in emerging markets seems to have suited the Federal Reserve's deeper seated desire to do nothing at all. Federal Reserve Chair, Janet Yellen, cited "international affairs" as being part of the reason for hesitation – for which we suppose we must take to mean China. Dennis Lockhart, Atlanta Fed Head, said it was prudent to stay on hold while global market turbulence was so high. This is an interesting development because it indicates that the Federal Reserve perceives a greater risk of deflationary contagion from China than the market, and indeed we at TAM, appear to think.

Then we had the conflicting message from Fed member, John Williams, who tried to convince us that the decision not to raise rates was a "close call" and largely a domestic issue and that rates could be going up in October instead. We think this comment is largely to do with inflation which has been absent, mostly due to falling commodity prices, notably oil.

Ultimately, we believe that the Federal Reserve could and should've raised rates much earlier in the year when the economic data, particularly employment, was pointing in pretty much the same direction it is now. In hindsight, it would've given the Federal Reserve room to cut now if they genuinely believed that it was appropriate and we wouldn't have had to endure months of speculation of "will they, won't they".

As it stands, it appears that there is a determination within the Fed to raise interest rates this year which means the next decision date is either October 28th or December 16th. We are not entirely sure what, if anything, is going to fundamentally change within such a short space of time but it's likely, in terms of market sentiment, that we are in for more of the same speculation as we have had in the last couple of months with everyone waiting on the side lines for any hint of what happens next.

This may feel slightly frustrating but our main objective here is to invest in the longer term and, for a number of reasons, whether a hike is now or December is largely irrelevant. Of far greater importance is whether the economic data is supportive for a return to more normalised interest rates – the new normal being around 2%, or whether the US consumer appears suddenly weaker in Q4 which would make more likely that the Fed adopt a "one and done" approach whereby they hike once and then go back to being "data dependent" as they say they have been doing.

This is a slightly unsettling notion when you think about it because it then seems that the all-knowing Federal Reserve is reliant on the same data as the mere mortals in the market. Something that one might think would be fertile ground for short termism and more volatility as stock and bond markets react to every twitch and turn in economic data in the lead up to Christmas where the health of the US consumer – who appears more inclined to save than spend right now – will form the basis of all investment decisions.

Barring some unforeseen escalation in the fortunes of emerging markets and China in particular, we are more inclined to see the next decision being based more upon the health of the US economy which, broadly is in reasonably good shape, in our opinion. If the US economy absolutely can't weather a 0.25% hike in interest rates, then things are far worse than anyone imagines.

At TAM, whilst not shifting our fundamental view to the short term, we have used the

recent sell off to selectively buy equities and only where we believe that the opportunities outweigh the risks, of which there are a few of varying magnitude or irrelevance, as we see it, and we continue to monitor the portfolios and markets carefully at this time of heightened volatility.

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