1853 William Penn Way, Suite 9 · Lancaster, PA 17601 · 717 735 0013

SEPTEMBER 2016 INVESTMENT COMMENTARY

INTEREST RATE OUTLOOK, TRADER POSITIONING, AND MARKET VOLATILITY

I am going to keep this month's commentary very short.

The equity markets and interest rates have been stuck in a tight range since June. The unexpectedly weak May jobs report released at the beginning of June removed almost any chance that the Federal Reserve would tighten monetary policy through an incremental rate increase over the summer months. Although subsequent job reports showed that the May report was an aberration, the job market has slowed down in 2016 versus the pace of job creation that occurred in 2015.

Through the end of August, the market remained very complacent with the idea that the Federal Reserve would remain on the sidelines until after the election in November. This complacency resulted in low volatility in U.S. equities and interest rate levels, with tactical traders locked into the "lower for longer" view on interest rates. This "lower for longer" attitude allowed tactical traders and yield-starved individual investors the luxury of not having to worry about being overweight those areas in the market that respond positively to low-interest rates and a lack of concern about a reversal of this interest rate structure.

Absent a reactionary recession scare, as we experienced in markets at the very beginning of 2016, or some type of non-financial geopolitical shock, the capital markets are seemingly positioned either in an interest rate risk-off mode or interest rate risk-on mode. For the lion's share of the last two and half years, the positioning has been interest rate risk-off.

When the sentiment regarding interest rate outlook changes, traders must reposition their portfolios very rapidly. This repositioning can cause higher levels of volatility within the markets. This volatility will then frighten many individual investors and those professional investors who attempt to chase the market, fostering additional repositioning and further elevating volatility. If one has a well-balanced portfolio that is constructed with risk management in mind, these periods of repositioning are inconsequential and more times than not provide opportunities to take advantage of panic-driven prices.

At Seven Summits Capital, we risk-manage our portfolios by not chasing overheated areas of the market and being cognizant of how our investments will react during those times when many investors find themselves over-exposed to areas that are subject of sentiment driven repositioning and panic selling ensues.

Going into September with a Federal Reserve meeting on tap and the looming Presidential election right around the corner, we are likely to face heightened periods of volatility. Don't be alarmed by this volatility; it will likely be due to tactical traders and complacent

investors changing directions in a hurried and rash manner as both monetary and fiscal policy direction is contemplated.

I hope to write more in-depth in October once the Federal Reserve meeting is in the rear-view mirror and some of the anticipated market volatility has played out.

CURT R. STAUFFER
(C) 717 877 7422
(O) 717 735 0013
cstauffer@ssummitscapital.com

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