BALLENTINE PARTNERS

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Volatility Returns, With a Vengeance

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After an exceptionally quiet summer in the financial markets, when the Dow Jones Industrial Average failed to move more than 1% for more than forty days, the calm was broken rather dramatically on September 9. The Dow shed nearly 400 points that day, and the following week has been a roller-coaster ride of big ups and downs, with the downs in control. Beyond the usual summer doldrums when many Wall Street-types are vacationing in the Hamptons, what accounts for this sudden increase in market anxiety?

In our view, there are three things that seem to have captured the market's attention: 1) the possibility of the Fed raising rates at its September meeting; 2) increasing concern over the ability of foreign central banks to bolster economic growth through more monetary stimulus; and 3) the recent sluggishness in US economic data.

Markets were spooked when several of the more-dovish Fed governors raised the possibility of a September rate hike. After seven years of near-zero short-term interest rates, isn't it time to move toward a more normal rate policy? In our view, markets are overly concerned about this possibility. Far more important to the financial markets is the pace and ultimate endpoint of the Fed's rate-tightening process, rather than the timing of the next hike. In fact, a 0.25% bump in Fed funds would still leave interest rates at exceptionally low levels and indicate the Fed's increasing confidence in the outlook for the economy. After a brief readjustment period, we believe the markets would look favorably upon this action.

Concern is increasing that monetary policy alone is inadequate to restore growth to the weak European and Japanese economies. With central banks hesitant to increase monetary stimulus by buying more bonds, interest rates in Japan and Germany have begun to rise, which is putting upward pressure on US treasuries. While we don't anticipate a significant increase in US interest rates this year, this is a phenomenon worth watching, as higher long-term rates would certainly undermine the bullish case for equities.

Of perhaps greater concern is the recent weakness is US economic data. Surveys of manufacturing and services activity were decidedly weak in August, retail sales declined, and the August jobs data was mildly disappointing. While one month does not a trend make, we are carefully monitoring how this evolves.

The elephant in the room is the upcoming presidential election. Despite the polls showing an extremely close race, financial markets seem to be assigning a low probability to a Trump victory. Regardless of one's political affiliation, most observers believe that Trump's anti-immigration and anti-trade policies in addition to his general unpredictability would be a negative for financial markets. As we move close to Election Day, markets are likely to pay more attention. Expect more volatility as a result.

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In addition to working directly with a number of family clients, Bruce serves on the Investment Management Committee, which is responsible for the oversight of all of the investment activities for the firm. Bruce rejoined Ballentine Partners in June 2016 as Managing Director and Director of Portfolio Research after more than 5 years as Chief Investment Officer of City National Rochdale, LLC, in Los Angeles. City National Rochdale, a wholly owned subsidiary of City National Bank, serves family clients across the United States with a staff of nearly 100 investment professionals. Before moving to Los Angeles, Bruce served as Chief Investment Officer of Ballentine in our Waltham office for three years. Prior to that, Bruce spent four years with Morgan Stanley Private Wealth Management in New York and eight years with Glenmede Trust in Philadelphia as Chief Investment Officer and Portfolio Manager. Bruce received an MBA with a concentration in Applied Economics from George Washington University and a BS degree in Business Administration from Penn State University. Bruce holds the Chartered Financial Analyst (CFA) and the Certified Private Wealth Advisor (CPWA®) designations. He lives with his wife in Palm Beach Gardens, Florida.