

## 7 December 2016

It's hard to believe that we're almost halfway through the holiday season, but so far the economic signs are encouraging. Still, only a month and a half from now we'll be welcoming a new presidential administration and next week the Federal Reserve governors will be meeting to consider a long-awaited increase in interest rates.

That rate hike is virtually a done deal, but the overall impact of the change will be primarily psychological. The U.S. economy has been gaining steam at a moderate pace and might well accelerate a bit when the new team in Washington takes the reins. Even so, while things seem to be on the way to a pickup in business, that's hardly the case abroad.

Until quite recently, central banks outside the U.S. have been following a path of negative interest rates in order to get their economies moving ahead again. To date, the best that can be said is that they've had slight improvement, but the result of their efforts remains well behind the recovery that we've enjoyed domestically.

So the Fed's discussion will focus both on what's happening here and how things are going elsewhere. One has to wonder how they could adopt a pattern of regular rate increases while the rest of the world is still muddling along. It seems more reasonable to expect that Chairman Yellen and her colleagues will proceed more cautiously rather than moving in a distinctly different direction than that of their global brethren.

Even if there are several modest upticks in rates over the next year or two, it's probable that the level we would be looking forward will still be in the low single digits. That's hardly a level that would act as much of an anchor on the domestic economy. At most, it would be a sign that the Fed is watching, but it certainly would not be an indication of concerted efforts to put the brakes on.

The bigger issue for investors is the continuing increase in valuations, which may well mean that the additional returns we are getting today will reduce those that we might expect tomorrow.