

## 5 Things to Know in a Jumpy Market

Recent dramatic market swings have been fueled by questions about the strength of global economic growth. While we've discussed slower growth for quite some time, this idea clearly wasn't priced into the market until recently as three things came to the forefront:



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- **Strength of the U.S. dollar.** Another way to phrase this is the weakness of a lot of other countries' currencies. Essentially, a broad devaluation relative to the dollar has unfolded, which has the tendency to strengthen the countries' growth where the currency became weaker and slowing growth in countries where the currency became stronger.
- **Macro data on China's economy has fallen well short relative to expectations.** Concern has built that a very important player in the global economy is not as strong as advertised.
- **Commodity price pullback.** Not only oil, but steel and agricultural products too, raising questions about global economic strength.

**Here are five key points for advisors and investors as you try to make sense of the market environment and perhaps make adjustments to your portfolio:**

### 1. Federal Reserve action and impact

Part of the market's recent fallback has been related to confusion over Fed policy. Monetary policy has been an essential tool used to strengthen the economic activity in the U.S and most developed economies. It seems that the U.S. economy doesn't need to, as yet, move away from accommodation given very low levels of inflation. The recent perception of a weaker global economy doesn't sit very well with the idea of the Fed raising rates. If they do raise interest rates, the perception is that it won't be good for growth. I'm not certain that they will or won't raise rates.

Will it be September, December or not at all? The stock market does not like uncertainty, particularly regarding something as important as Fed policy.

### 2. What's going on with global economic growth?

In the U.S. right now we seem to have a bifurcated economy: a strong consumer, but a weak industrial sector. The stronger consumer is a reflection of a decline in the unemployment rate, low levels of inflation and declining energy prices translating into improved purchasing power. On the other hand, the industrial and manufacturing sectors are quite soft, thanks in part to soft demand growth outside the U.S., particularly in Asia.

At this point, the economy in the U.S. is not slowing. I don't think it's accelerating very much, either. Looking at the data so far, by year-end, we're likely to see U.S. gross domestic product (GDP) growth at 2 to 2.5%. The U.S. economy is ahead of the game relative to the rest of the world.

### 3. The EM connection

Many emerging markets, particularly in Asia, are connected closely to China. If China is softening it translates into softening elsewhere.

Because of slowing demand for commodities and durables in China, the primary suppliers of such are likely to be struggling for a while.

#### 4. Remember TINA

TINA is an acronym for “there is no alternative,” which is a phrase used to describe support mechanisms being applied by central banks to drive economic growth. Central banks are taking steps to lower interest rates in an effort to boost growth, a process referred to as quantitative easing. If growth disappoints, TINA suggests that more will be done. We’ve noted previously that the Eurozone is likely to be in a stimulative position at least through 2016. The president of the ECB has said they’ll “do whatever it takes,” which may imply accommodative policy may go beyond 2016 and exceed the purchase activity that they’ve already indicated.

Similarly, Japan has very aggressive central bank policy to support financial asset prices with the expectation of raising the growth rate and the level of inflation. And now China is engaging in pretty persistent policy initiatives to further support their economy to try to re-accelerate the level of growth.

#### 5. What’s an investor to do?

Volatility is never easy to take. But, the U.S. stock market has had a pretty significant correction, and seemingly now provides potential for appreciation.

Growth stocks are a better place to be right now, since growth is scarce. Also, they generally have had bigger corrections, which has increased their relative attractiveness.

For fixed income investors, high yield seems attractive, as we don’t see any serious credit issues at this juncture. Municipal bonds also have potential, as on a tax-effected basis, they are attractively valued. Above all, don’t make any radical adjustments without reviewing your portfolio with your financial advisor.

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