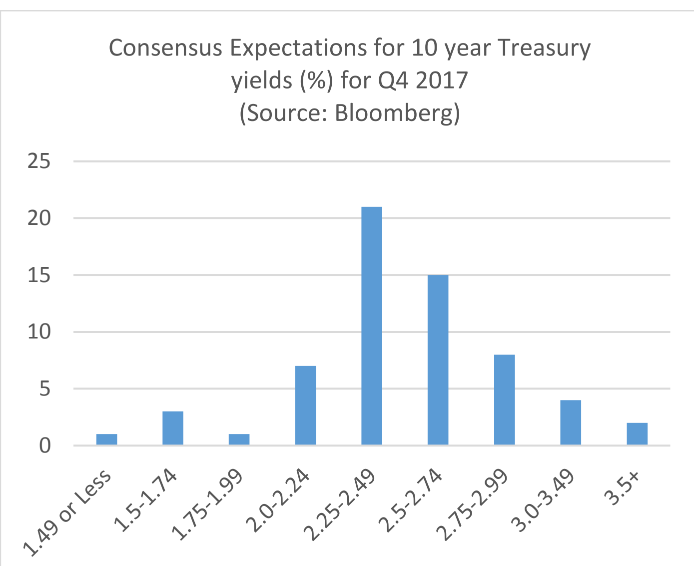
Economic & Investment Perspectives

There are two types of contrarians; the permanent ones who seek to take the opposite of consensus on a consistent basis time and again, and the occasional ones who find the idea of herd mentality powerful enough not to be ignored but nonetheless routinely (and more often than not) excessive. Put us squarely in the latter, and place today's environment regarding expectations for future interest rates as one of the excessive.

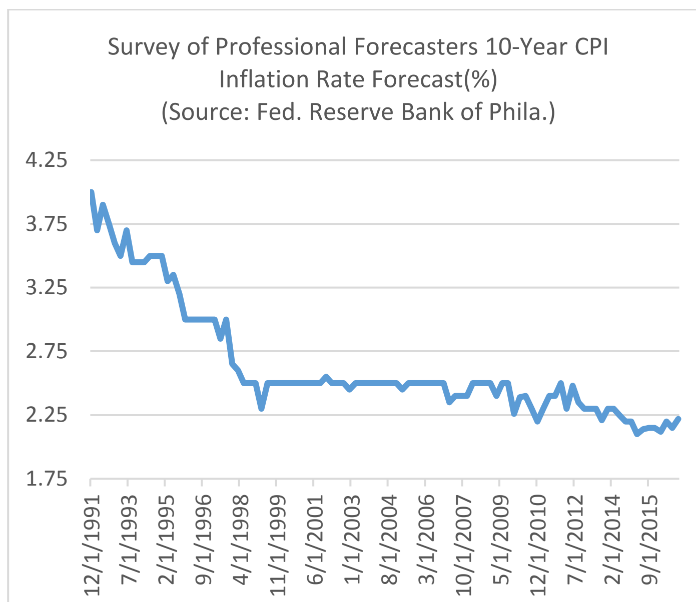
The consensus is not just heavily one-sided regarding the immediate future direction of interest rates (Chart One), but many (and some very well-known and respected individuals we might add) are now even calling the end of the 35-year bull market in bonds here in the United States. From where we stand, the primary structural factors that have led interest rates to decline in the U.S. in particular over the past three and a half decades remain firmly in place.

Chart One



First; over the past thirty years or so the growth in global capacity to produce everything from iron ore, to shoe laces, to smartphones, to accounting services have been significant and far faster than demand growth. The end of the Cold War significantly expanded the supply of labor globally and massive investment in infrastructure in emerging markets expanded economic capital worldwide. We expect this potential capacity for over-supply to continue over the coming decades. A sustainable and long-run acceleration in prices would require a significant and sharp U-turn in this trend. While populist/protectionist movements pose a risk in derailing this supply chain, we believe the immediate impact of such actions in fact would be to reduce demand and not increase it via contractionary economic outcomes.

Chart Two



Second; one of the grand successes of monetary policy since Paul Volker's term as Chairman of the U.S. Federal Reserve has been the taming and stabilization of long-run inflationary expectations (Chart Two). This stabilization has been a key measure for both monetary policy's success and increased business confidence in the management of the supply chain over the past

several decades. For a rise in interest rates to be sustainable in the long-run, a dent in confidence first needs to occur. And frankly we don't expect that any time soon.

Third; the temptations are great in many circles to believe that fiscal policy can succeed where monetary policy has not. We remain skeptical that further unfunded expansionary measures, combined with interventionist/protectionist economic policies, and limited capital and regulatory relief for the financial services and energy sectors respectively will somehow manage to expand the labor force and productivity and get "real" economic activity to reach 3% + growth on a sustainable basis.

With excess global capacity and stable inflationary expectations acting as headwinds for inflation and the "New Normal" as headwind for real economic growth, can cyclical government induced "financial engineering" end the multi-decade secular drop in "nominal" interest rates? Not from where we stand!

Pardon us for being contrarian on this one, however, we believe that the combination of an aged economic cycle, tighter monetary policy, and an interventionist government lead to an increase in volatility, a flatter yield curve, and eventually lower long-term interest rates and not higher. The next downturn will likely be a combination of zero policy rates and long-term interest rates that will be close to if not lower than what we observed in the Summer of 2016.

As always, stay tuned;

Ardavan Mobasheri
Chief Investment Officer
January 23, 2017

Economic & Investment Perspectives

IMPORTANT CONSIDERATIONS

The views and opinions expressed are for informational and educational purposes only as of the date of writing and may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice. The information provided does not take into account the specific objectives, financial situation, or particular needs of any specific person. All investments carry a certain degree of risk and there is no assurance that an investment will provide positive performance over any period of time. All investments carry a certain degree of risk and there is no assurance that an investment will provide positive performance over any period of time. Equity investments are subject to market risk or the risk that stocks will decline in response to such factors as adverse company news or industry developments or a general economic decline. Debt or fixed income securities are subject to market risk, credit risk, interest rate risk, call risk, tax risk, political and economic risk, and income risk. As interest rates rise, bond prices fall. Non- investment-grade bonds involve heightened credit risk, liquidity risk, and potential for default. Foreign investing involves additional risks, including currency fluctuation, political and economic instability, lack of liquidity and differing legal and accounting standards. These risks are magnified in emerging markets. The information and data contained herein was obtained from sources we believe to be reliable but it has not been independently verified. Past performance is no guarantee of future results.

ACIMA Private Wealth LLC is a registered investment adviser. To learn more about how ACIMA Private Wealth can help you meet your goals, please contact our office at (804) 422-8450 or visit our website. Additional information is available upon request.

CFA® and Chartered Financial Analyst® are registered trademarks owned by CFA Institute.