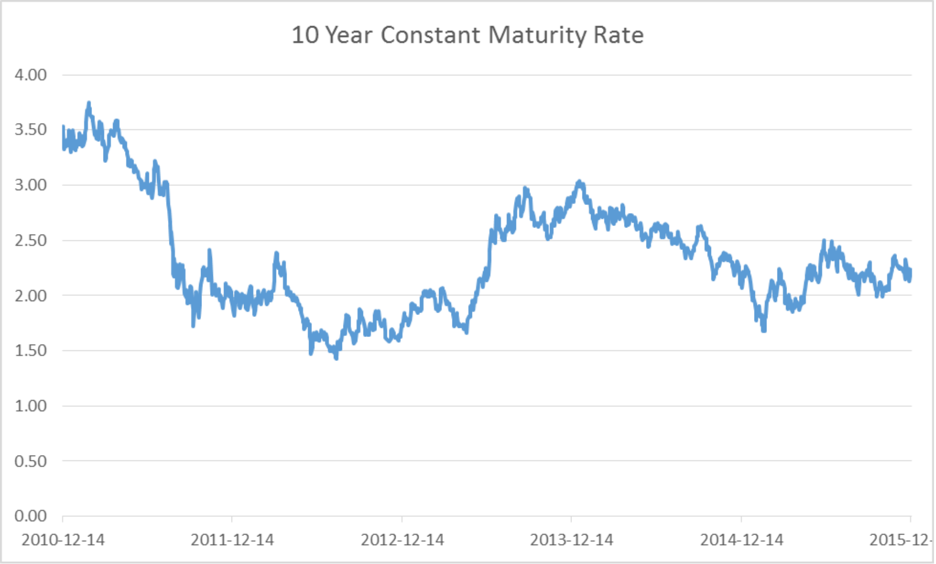
SEBOLD CAPITAL
WEALTH MANAGEMENT

December 2015

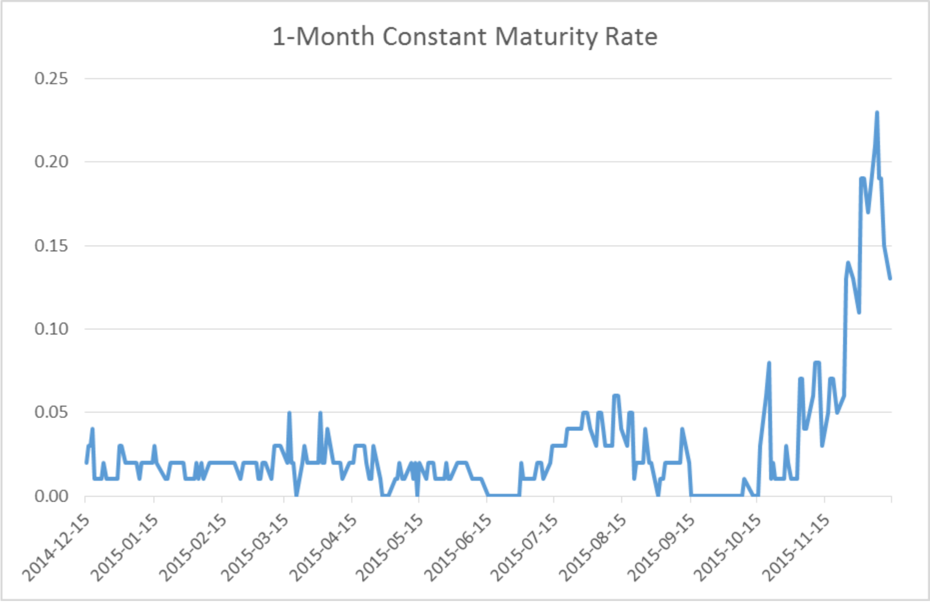
Market Update

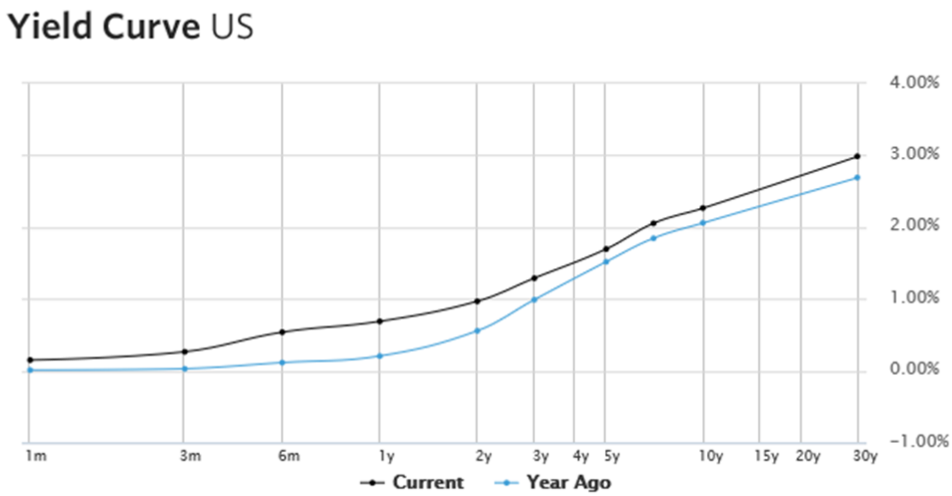
The waiting is finally over. The Federal Reserve has raised the Federal Funds rate to .25 - .50%. To put into perspective, we have been waiting longer for a Fed interest rate rise than we have for another Star Wars movie. What a relief! As this has been the most telegraphed interest rate hike in US history, there is actually no news behind this news. As a result of the severe disappointment by the market of the Fed's inaction last meeting, the markets will be quite understanding of this hike in the weeks ahead.

Ten-year treasuries have already priced in the interest rate hike, rising from a 2% low in October to a high of around 2.4% in November and December.



The real movement has been in the short end of the yield curve, the one month has finally seen the yield hike in its price:



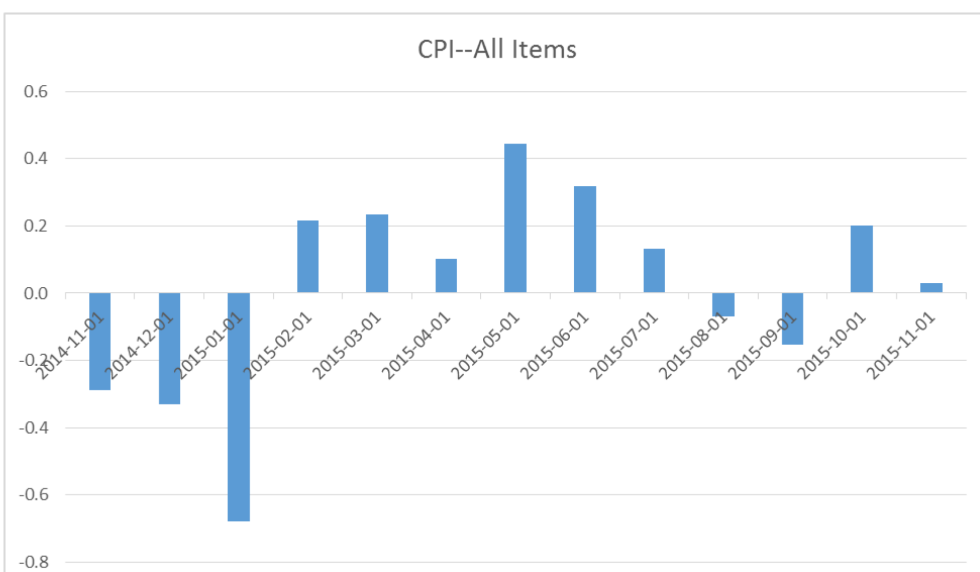


The flatter yield curve has moved higher, but only slightly. Any rampant concerns of accelerating interest rate hikes are overstated. There has been considerable debate over this interest rate hike over the past 10 years; many have predicted interest rate hikes could be inflationary, while others believed that an interest rate hike will kill the little economic growth we have.

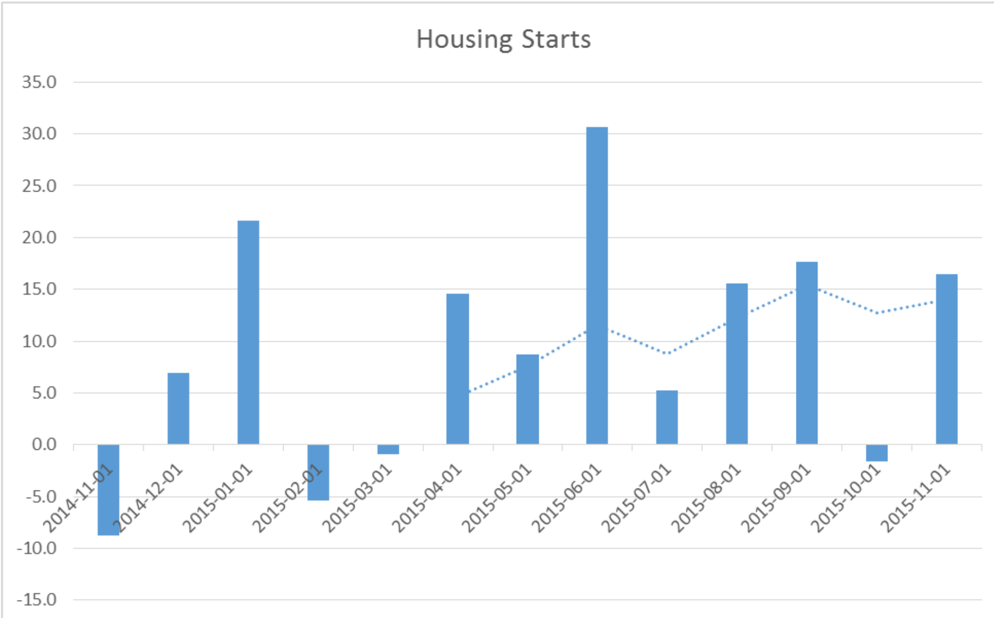
It is pretty clear that a .25% Fed Funds hike will have very little material impact on business. It would be a rather large jump to think that businesses in America are making decisions based on what the Federal Reserve will do with monetary policy. It will however, tell a story about the expectations of US growth in the future. This rate hike tells businesses that the Fed is more concerned about normalizing monetary policy than slowing the economy. The Fed's position should tell business that the economy is strong enough to withstand a normalization of rates.

The longer term challenge to the Fed is facing a deflationary economy rather than inflationary. Deflation can be much more destructive to asset holders and the financial system, than inflation. Is it wise to buy something today that will be 10% cheaper one year from now? This thought can take an economy spiraling into negative territory.

Falling commodity prices continue to put downward pressure on all prices, save for those that are subsidized by the government (medicine and higher education). As a result, it has become difficult for nominal sales to rise. While we has seen only a slight decrease in earnings of the S&P 500, higher revenue numbers have been difficult to come by. M&A activity has masked much of these issues throughout the year, yet the market hasn't bought into it. Companies are getting bigger, but they need to become more profitable.



While still quite lumpy, the seemingly bright spot in this economy is growth in housing starts. It appears the interest rate hikes have spurred many of the Millennials to get out of their parents basement. This could begin the process of driving overall GDP higher, but it will take some time. Housing starts are notoriously sporadic and are subject to lending standards.



Overall, we see the rate hike as an interesting non-event. What will be more important is the inflation data that shows up over the next six months.

As always, thank you for your continued support.

Sebold Capital Management
400 E. Diehl Rd., Suite 210
Naperville, IL 60563
(630)548-9700

www.seboldcapital.com