



Focus turns to Jackson Hole

UNITED STATES

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● Equities

The timing of the next Fed rate hike continues to be an elusive debate for investors. Earlier this week, there were a number of Fed speakers on the tape that fostered sentiment on both sides of the argument. San Francisco Fed President John Williams struck a dovish tone on Tuesday as his comments calling for central banks to raise their inflation targets in the midst of the current sluggish global growth environment drove the USD to near a two month low. In contrast, William Dudley sounded more hawkish as he acknowledged that he would not rule out two rate hikes this year (leaving a September rate hike on the table) and that markets may be too complacent with respect to future rate hikes. This potential complacency has been seen as equity markets continue to grind to all time highs, volatility remains non-existent and recent weakness in the USD despite continued QE from the European Central Bank (ECB), Bank of England (BoE) and Bank of Japan (BoJ). Investor complacency could also be seen through the market reaction to the release of the Minutes from the July Federal Open Market Committee (FOMC) meeting. Although the Minutes acknowledged that some Fed officials believed "labor market conditions were at or close to those consistent with maximum employment" and that rate hikes might be "warranted soon," both equities and bonds rallied, while the USD sold off. Additionally, while this statement may be seen as slightly more upbeat on the economic outlook relative to recent FOMC statements, the probability of a rate hike in September or December fell to 23% and 48% respectively.

Next week investor attention will turn to Janet Yellen, as she will speak at the Kansas City Fed's Economic Symposium at Jackson Hole. This event has been market moving in the past as former Chairs of the FOMC, particularly Ben Bernanke and Alan Greenspan, have used Jackson Hole as a venue to announce dramatic changes in monetary policy. With a title of "*Designing Resilient Monetary Policy Frameworks for the Future*" for this year's event, we believe that Janet Yellen could use her speech to establish a framework to prepare markets for the timing and magnitude of future rate hikes. While we see a low probability of a September rate hike, we believe a rate hike in December is likely because of a number of economic factors. First, the weakness in the May jobs report appears to be an anomaly as the three month moving average of job gains (190k) continues to point to strong labor market gains. Second, average hourly earnings (+2.6% YoY) are growing at the fastest pace since July 2009 and should support both consumer spending and push inflation to the upper end of the Fed's target range. Third, while the Atlanta Fed GDPNow model forecasts Q3 2016 GDP to be +3.6%, recent data on manufacturing, housing and employment could also alleviate concerns emanating from the weakness in the first half of the year.

Week Ahead

Outside of Jackson Hole, there will be a number of economic data points released next week. Some of the key releases next week will be new (released Tuesday) and existing (Wednesday) home sales, durable goods orders (Thursday), international trade (Friday), consumer sentiment (Friday) and the second reading of Q216 GDP (Friday).

Deutsche Bank does not intend to promote a particular outcome to the US election due to take place in November. Readers should, of course, vote in the election as they personally see fit.

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