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I am happy to present this month's market commentary from our Investment Team. The goal is to give our clients and friends a simple way to see everything they need to know about the financial markets on a weekly basis, in 5 minutes or less. After all, investing should be simple, not complicated.

THE ECONOMY AND A NEW ADMINISTRATION

In a corporation, the CEO is beholden to the board of directors and the board is beholden to the shareholders. Both parties, recognizing that their company's product or service must satisfy customers, also realize that the survival of the company relies on that group as well. This is the reality of business. A successful business must keep an eye on benefitting both groups and not operate to benefit the CEO and board only.

Donald J. Trump is a businessman. He was never a politician. In interviews over the last twenty-plus years, when asked if he would ever run for president, he replied that it would only happen "if things got too bad." During those years, he watched the American political machine operate as if the shareholders and customers played no part in the success of the business. He had seen enough and that state of affairs brought him to the presidency on a wave of populism. It was the middle-class speaking; often a group that has been left out, disillusioned with high health care premiums or suffering from unemployment.

Trump said that he would "drain the swamp," meaning that career politicians, and the rules of Washington, D.C. — the inside the beltway deal-making, politician to lobbyist career path and enrichment, special interest groups and neglect of the working class — would have to go. This infuriated career politicians in both parties and he was seen as a pariah and obstacle to Washington business-as-usual.

In U.S. history, only five presidents have ever entered the presidency with no experience in elected office. The last one was Dwight D. Eisenhower. As a business person, Donald Trump's agenda was not social issues, but instead creating jobs, lowering the real E-6 unemployment rate, restructuring health care to make it more affordable, strengthening U.S. defense, destroying ISIS and renegotiating trade deals that did not benefit Americans. He has approached these things as a CEO manages decisions in business and not as a career politician.

Controversy and Reality

What Trump has learned as president, is that you don't drain the swamp without a lot of push-back and controversy. Media reports have linked his campaign with efforts by either the Russian government, or stealth groups in Russia, with interfering in the U.S. presidential election. Several bodies have investigated these claims, since August of 2016, including the Department of Justice, various Congressional committees and the FBI. Trump's own Deputy Attorney General appointed a special counsel to investigate the claims, along with anything else that would be unearthed in the process.

In the meantime, the unemployment rate has fallen to 4.3 percent, a 16 year low under the new administration. The new president has signed more than 40 bills and nearly 40 executive orders designed to get Americans back to work, improve trade, protect the border and initiate infrastructure programs.

A confident stock market enriches the 401k plans and IRA's of American's of all stripes. Since entering office, the Trump impact on the market has seen the DOW rise over 12 percent as of early July. As of July 20, the Trump presidency has seen an increase of $4.1 trillion in the markets. A policy of repealing two regulations for every new one passed means that companies will feel some relief from burdensome government regulations that have impacted hiring in recent years. These changes will save U.S. companies $18 billion a year in costs. Through July 23, more than 800,000 new jobs have been created under the new administration. Growth of the economy is a goal with a return to four percent annual economic growth.

For seven years, Republicans in the Congress have said that they would repeal and replace the Affordable Care Act (ACA) when they had the executive branch. The frustration for the new administration is that the establishment Republicans did not think that Trump would win. They were caught off guard without a replacement program that all of their colleagues could agree on. A new plan would include some provisions of the ACA, like pre-existing conditions and coverage for college students, along with efforts to decrease premiums and allow purchases across state lines.

Healthcare was one of the new president's campaign items that is not moving forward smoothly. Other economic items have been checked off the list. Unfortunately, not everything in Washington can function like a corporation, and that will challenge the new president and his agenda.

INFLATION AND INTEREST RATES; WHAT MIGHT HAPPEN

With prices going up continuously at the grocery store, it is some relief to see prices at the gas pump remain fairly stable and reasonable, in light of the price spikes in recent years. A global surplus has quelled the price of a commodity that most Americans rely on every day.

But, consumers aren't the only ones watching these price fluctuations with interest; the members of the Federal Reserve monitor them closely as well. For members of the Fed's Federal Open Market Committee (FOMC), the price movements of these commodities are an important gauge for their decision making. The Fed has raised interest rates twice this year.

They also raised the federal funds rate once in December of 2015 and once a year later. On July 26, after the Fed's policy meeting, it was announced that the Central Bank would leave the rate alone and unchanged. There is a chance the Central Bank could raise rates one more time this year.

After the financial crisis in 2008, the Federal Reserve maintained its key rate near zero for seven years. Fed officials had speculated months ago that they might raise rates three times during 2017.

Low inflation can prevent the Fed from increasing interest rates. The Fed considers the data in the Consumer Price Index along with figures for retail sales. It also uses a measure known as the PCE deflator, which in July, came in at 1.4 percent; a figure that is lower than the Fed's hoped-for 2 percent target.

Practical Considerations

With low inflation, consumers tend to put off spending because there is not as much urgency to make purchases when prices seem stable. This is one reason the Central Bank would like to see inflation closer to its 2 percent target.

The Fed also makes decisions about interest rates based on unemployment levels. The current rate of 4.3 percent is the lowest level it has reached in several years. In the Fed's eyes, this is considered maximum employment, as economic theory goes.

The Federal Reserve has been engaged in a program of Quantitative Easing (QE) in the past to buy back Treasury and mortgage bonds. The Fed currently has a $4.5 trillion balance sheet of Treasury and mortgage bonds that were accumulated as a result of QE after the 2008 financial crisis. Improving economic conditions no longer warrants actively maintaining this program.

Experts believe that the Fed will start to decrease these holdings, starting in the fall, which could increase mortgage rates and other longer term borrowing rates.

Yields on 10-year bonds go up with a rate increase. There is an impact of the Central Banks decisions on existing bond holders.

During the April through June quarter, the economy grew at an annualized rate of 2.5 percent, better than many quarters in recent years, but shy of the current administration's goal of 3 percent.

A number of economic factors become a part of the Fed's decision making process and it will be interesting to see how these variables impact the Central Bank's next rate decision.

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About the Author

K Richard Douglas has worked in the financial services industry for 26 years, with an additional 10 writing about financial and economic topics. He’s a former series 9, 10, and 26 registered principal and series 6, 7, and 63 registered representative. Richard has held many financial service industry designations, especially in the retirement planning and compliance mechanism areas.