ClarkCapital
MANAGEMENT GROUP

Navigator® Market Update
K. Sean Clark, CFA, Chief Investment Officer

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AND SO IT BEGINS...

The Federal Reserve met and made two important decisions on policy — balance sheet normalization and the direction of future overnight rates.

The Federal Reserve announced that it will begin the process of normalizing its bloated $4.5 trillion balance sheet. As expected, the Fed will begin the process in October and it will cap its roll off at $10 billion ($6 billion of Treasuries and $4 billion of Mortgage Backed Securities (MBS)) for the next three months. The announcement that balance sheet runoff will start in October was not surprising, but what was surprising were comments regarding the hurdle for resuming quantitative easing should the economy stumble. Fed Chair Yellen suggested that even if there is a sharp economic deterioration, the committee would cut interest rates back to the effective lower bound before stopping the runoff.

Twelve of the sixteen FOMC participants think another hike this year looks appropriate. There are only two meetings left in 2017, and it appears that the Fed will likely hike rates again at the December 13th FOMC meeting. The Fed funds futures market is now pricing in a 64% chance of a rate hike before yearend. Consistent with a rate hike, the Fed upgraded its growth outlook from 2.2% to 2.4% and lowered the 2018-2019 unemployment forecast from 4.2% to 4.1% for 2017. The Fed also downplayed the significance of the weak core inflation data, saying that this "primarily reflects developments that are largely unrelated to broader economic conditions." The Fed believes that the persistently low inflation numbers are transitory or temporary.

Contrary to the Fed's short-term outlook, they downgraded their longer-term target for the federal funds rate. The long-term target (2020) slid from a 3.0% target rate to 2.75%. That underscores the Fed's belief that we are stuck in a slow growth environment. None of this changes the immediate outlook for the markets as the notional amount of reduction of the balance sheet is a drop in the ocean compared to the float of the Treasury and MBS markets, but it does symbolize a regime change to which the financial markets will have to adjust. These decisions are not likely to bite at risk assets until the tightening cycle impedes the economy and crimps corporate profit estimates enough to stretch forward multiples to unsustainable levels.

K. Sean Clark, CFA®
Chief Investment Officer

As Clark Capital's Chief Investment Officer, Sean oversees all of the Firm's investment activities and heads the Firm's portfolio team. Sean joined the Firm in 1993 and is responsible for asset allocation and investment selection for Navigator Investment Solutions as well as directing ongoing market research and contributing to the development of proprietary products. Sean is a member of the Clark Capital Board of Directors, the Investment Committee and the Management Committee. He graduated from the University of Delaware, earning a B.S. and an M.A. in Economics. Sean is a Chartered Financial Analyst and a member of the CFA Institute (formerly AIMR) and the Financial Analysts of Philadelphia, Inc. Sean is considered an industry expert and is often asked to appear on CNBC and Bloomberg television to share his views on the market. In addition, Sean has been featured in a number of articles in nationally distributed business journals and newspapers.

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