

The Writing is on the Wall – Whether You Close Your Eyes or Read What is Written is up to You.

I have written a number of times in the past four months that we expect the Fed to go to negative interest rates. We have warned our investors in person, by phone and in newsletters. It is weird that everyone still seems to be surprised by this concept. The typical reaction is, “Is that possible? Has it ever happened before?”

Sigh.....ummm Europe?

Now, the a little over a week ago, Japan has jumping on the negative band wagon. The markets were euphoric for a whopping two days before continuing its retreat. Even with this, people look at me like I have a third eyeball when I tell them we think the Fed will go negative within twelve to 15 months.

Come on people! Look around! Here is an article just published last week by Bloomberg: <http://www.bloomberg.com/news/articles/2016-02-02/rates-less-than-zero-is-bank-stress-fed-wants-to-test-in-2016>

The Fed plans to stress-test the banks against negative interest rates over a “prolonged period” of time. In their tests, they expect the three month to be below zero. Reality, based on the rest of the world, is that the interest rate curve will be negative going out at least to the two or three year maturities.

The Fed is very quick to ensure everyone that this is not a forecast; “Fed officials have made clear that they are a long way from contemplating a reduction in rates below zero in their benchmark overnight policy rate.”

I would believe them except for the fact that Janet Yellen has been talking about negative interest rates in every speech since **September**. Yes, in the most recent Fed minutes they continued to “...reaffirmed our Statement on Longer-Run Goals and Monetary Policy Strategy.” Of course, that is a lot like me reaffirming my desire to be on the USA Archery Team. I want to get there, I plan on working hard, but let’s face it, a great deal of the decision will be beyond my control. The Fed just isn’t will to be as candid.

Bottom line: Negative rates are coming because the Fed will not ever say, “it is beyond our control.” When things get bad enough with stock market earnings and economic growth around the world, they will do the one thing left to do, go to negative interest rates. Either you plan in advance and protect yourself, perhaps even make money, or you react after the fact – just like all the other lemmings.

Alan E. Rosenfield, Managing Director

February 8, 2016 - LinkedIn