Hamilton-Bates
Market Update
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Federal Reserve Interest Rate Decision Edition

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Greece and the Fed Still Dominating Headlines
Mixed signals continue to permeate the financial markets, as both stock and bond markets have had a decided lack of direction in 2015.

Investors have responded by showing a significant increase in bearish sentiment among individual (non-professional) investors. These readings tell us that retail investors have had a panic-type reaction to the sideways action in the stock market, the negative headlines on Greece, and the potential for a Fed move on rates.

Economy, Earnings, & Interest Rates
The economy has shown some life of late, bumping 2Q GDP estimates a full point to just under 2%. Not great but clearly not a recession. Rising interest rates (especially if its one and done by the Fed) need not spell the end of the economic recovery. In the past, when rates rise from depressed levels it can initially have a stimulative effect on the economy, most notably real estate. The thinking behind this phenomenon is that it's best to lock in rates now before they go too high. This means that as long as rates don't go too much higher we could see a slight bump in economic activity.

Market and Investment Outlook
With a market that has gone nowhere, and investors in the bearish sentiment camp, the market once again has underlying support in the form of the 'wall of worry.' Each time this year that it looks like the bears were about to take control, the market has surprised with a rally. But the bulls don't yet seem ready to run, as each time the market has bumped against the 2015 highs the market has stalled.

In the bond market rising bond yields are apparently discounting the normalization of the Fed's interest rate policy. The Fed is widely expected to raise its benchmark rate sometime later this year, most likely September. The immediate effect of rising yields has been decidedly negative for some areas of the financial market, with investors rushing to liquidate bond funds and other rate-sensitive sectors. Rising

S&P 500
Not much headway since last November, but we see some positives in the market's action. As long as the S&P holds the 150-day average as it has done 5 times so far in 2015 (dashed lines highlight these), the rising bottoms and flat-topped resistance highlighted by the black bold lines form a 'bullish wedge' pattern . Normally we'd see stocks move up and out of this pattern with a continued advance, and that is what we expect this summer.

bond yields can make stocks slightly less attractive to income investors. The bond market is oversold now and looks ready for a good bounce.

Ultimately we think what matters to a lot of investors is what the Fed does with interest rates and the commentary from the FMOC meeting this week. Over the next few months anything that emphasizes patience will lead to shares moving higher. If they appear more eager to ratchet up rates, then expect shares to tumble and interest rate sensitive sectors to struggle..

Rising rates alone are not immediately bearish, at least not early in the rate hike cycle. A positive statement from the Fed about the health of the economy could be more important to where stocks will be headed. At some point in the future if rates go too high it will hamper the economy, crimp the demand for stocks, and lead to a market correction. That is not where we are just now.