

# S A G E

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## PRIVATE WEALTH GROUP

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### **SAGE Insights: Global Market Perspective**

#### Hike Hysteria

While growing concerns over geo-political tensions and future corporate earnings appear to be logical scapegoats for recent market volatility, we believe that Fed's monetary policy is the proverbial "elephant in the room". The Fed's "dual mandate" oddly enough consisting of three goals of maximum employment, stable prices, and moderate long-term interest rates all appear to be at levels that justify the policymakers' recent interest rate hikes, but the ramifications of future rate hikes and the perpetual unwinding of its balance sheet has unsettled market participants. Although this does not lead us to believe that the current bull market is concluding, it does present an opportune time to increase exposure to specific asset classes that we feel enhance long-term returns.

With the unemployment rate flirting with historic lows and inflation hovering near two percent, we believe that there is nothing alarming about the Fed's decision to gradually normalizing interest rates. During this two year period of quarter percent rate hikes we have witnessed short-term rates rise, but not necessarily long-term rates. The yield compression between short-term rates and long-term rates has captured the attention of investors, arguably those operating above their risk tolerance.

There is no denying that the Fed's monetary policy is having a flattening effect on the yield curve and that this flattening has occurred in later stages of previous market cycles. For this reason, among others, we have reduced exposure to higher yielding bonds; an asset class that has served clients well throughout the recovery, for more value oriented U.S. Large Cap stocks. Despite the significant pullback in global stock prices, we believe that fundamentals remain strong and that we are transitioning into a later stage of the current expansion cycle, rather than the end. As always, please contact your SAGE Wealth Advisor for additional thoughts regarding these changes.

Thank you,  
SAGE Investment Committee

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