



## Economic and Market Insights

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*Commerce Trust Senior Vice President Nick Fafoglia takes a moment to address the top economic themes that clients have on their minds in a five-minute read...*

**Q. Why are we getting the big swings and increased volatility in the markets in the first month of the new year?**

A. Even though the accelerating U.S. economy has largely “decoupled” from other global economies, we are nonetheless impacted by the slowing economies in the Eurozone, Japan and many Emerging Markets. Markets do not like uncertainty.

**Q. Can the U.S. bull market continue to run with this global weakness?**

A. Yes, but we also believe volatility will be increasing, and various highs and lows will be tested on the market over the next several months. Overall, the positive dynamics that have sent U.S. stocks higher remain intact for 2015, subject to any unforeseen geopolitical events.

**Q. What are other economies doing to address their problems?**

A. Just last week, for example, European Central Bank head Mario Draghi took productive steps to enable member countries easier access to commercial loans. We think even more measures will eventually be needed, but this stimulus should help stabilize our European trading partners. This prescription is very similar to the quantitative easing medicine the Fed employed here. Global stimulus is front and center, and even a stagnant Japan is looking at additional monetary initiatives. Russia’s economy is struggling due to falling oil prices and political sanctions, and will be hard-pressed to recover under current conditions.

**Q. Will stimulus measures by other countries be enough?**

A. It is much healthier to have as many of the world economies participating as possible. It is critical not only that the Eurozone be part of the success, but also Emerging Markets in Russia, the Middle East, South America and Asia. Weakness in any country can eventually spill over to neighbors. When the rest of the world’s economies are on a divergent path, it puts the global bull market on a little shakier ground.



**Q. Will changing energy prices create a new normal for U.S. and world economies?**

Some see it as a “tax cut” that spurs higher consumer spending, which in turn stimulates the overall economy. We believe global energy prices will stabilize by year-end. Energy prices now working their way through industry will soon have an impact on some companies’ earnings. For instance, earnings expectations for the S&P 500 are now lower for the year as about 8% of the companies on this exchange are energy-related. This could add to the volatility on the markets.

**Q. So will the Fed raise interest rates in 2015?**

A. The Fed believes the U.S. economy is accelerating well enough that, despite a fall-off in inflation as recorded in all the financial metrics, it will still raise interest rates. But we believe it would be difficult to raise rates at midyear, which is the market’s consensus, because we have collapsing inflation and economic challenges overseas. The Fed appears committed to raise rates sometime before the end of the year, however, with the intent of beginning the return to a more normal rate policy.

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