City of Meriden, CT

Meriden City Hall, 142 East Main Street, Meriden, CT 06450

Pension Fund Update September 13, 2016

Meriden Retirement Board

Tuesday – September 13, 2016

Economists remain conflicted about the potential of the Federal Reserve Board raising US interest rates next week, but the political calendar will likely force the Fed's hand – and the investment markets have taken notice. After seven years of extraordinarily low rates, the Fed increased benchmark borrowing costs by just 0.25% last December while forecasting another four rate hikes for this year. Yet none has yet occurred, and the data-dependent Fed Governors dialed back expectations to the present common view of just one increase in 2016. Markets not only react to changing interest rates, but anticipate. Last week, investors saw firming rates overseas, modest growth in employment, and signals the Fed is unlikely to wait until Election Day or Christmas to start tightening credit. Stocks and bonds both started selling-off, as they had – in tandem – to begin the year.

As Pacific Global reported: "Since the financial crisis in 2008, the era of 'easy money' contributed to an historic period of price appreciation for conservative investments, including bonds and dividend-paying stocks, as investors compensated for declining interest rates. However, with the Fed signaling a gradual tightening of monetary policy, income-oriented investments may lag. Instead, stocks in sectors which respond to economic growth are poised to outperform; earnings growth in these areas should support continued share price appreciation even as interest rates rise. The *Energy* sector, which is only now emerging from a two-year bear market, is largely isolated from the market's fixation on central bank policies; as a result, *energy* stocks may offer significant upside potential."

Central bankers would like to avoid the appearance of electioneering with a rate hike November 2nd, and abhor the notion of "raise-or-look-foolish" on December 14th. That leaves just one available date on the Fed schedule for a 2016 rate hike, and that is September 21st at next week's meeting of the FOMC.

Meriden Retirement Fund

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August provided fractional gains for the Meriden retirement funds, lifting the fiscal YTD above 2.8%, and boosting the more aggressive OPEB Health Trust to a 3.2% gain. Stocks traded in an unusually tight range throughout the month. Sector allocations to energy and financials, increased for opportunity early in the year, responded in early September as volatility returned and much of the broader market seemed drawn toward correction. Leading performers for the fiscal year are Matrix Advisors (large cap value) and Franklin-Templeton (international), while midcap managers Anchor and Kayne-Anderson remain tops for the calendar year – with gains beyond nine percent. Balanced portfolios with Capstone and Fundamentals offset equity risk with bond exposure, likely to be tested if the Fed advances its rate cycle.

Without a Brexit shock, increased international and emerging market exposure has proved appropriate. Overall asset allocation for the composite retirement portfolio remains 48% domestic equity, 23% fixed income, 10% international, and 19% in private equity, managed futures, and hedge fund alternatives.