TOP 10 CONSIDERATIONS FOR JUNE TO SEPTEMBER LIFTOFF

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One of the top stories of 2015 so far has been the anticipated liftoff from the zero bound interest rate target of the U.S. Federal Reserve (Fed). As market forecasters continue to debate June vs. September, we share some observations from previous hiking cycles to guide your views. **Federal Open Market Committee Calendar Since 1971**

Changes in Fed Policy by Month	Combined	Hikes	Cuts
January	21	7	14
February	19	12	7
March	20	13	7
April	17	8	9
May	19	16	3
June	13	8	5
July	19	9	10
August	22	16	6
September	22	14	8
October	17	5	12
November	25	9	16
December	29	7	22
Total	243	124	119

Sources: Bloomberg, WisdomTree, as of 3/31/15. Past performance is not indicative of future results.

1. Playing the Odds • There have been 124 interest rate hikes since 1971; the months with the most frequent interest rate hikes have been May and August, each with 16 hikes over the period • Given that no Fed meeting will occur in either of those two months in 2015, this could help explain why forecasters have coalesced around June and September • The next most common month for hikes is September **2. Contrarians Jumping on the June Bandwagon** • Interestingly, the month with the fewest changes in policy has been June • For investors who tend to spend a disproportionate share of their summers at the beach, a June rate hike could force them back into the office • If this occurs, look for an aggressive market reaction • Flying in the face of this assumption is that the two most recent tightening cycles (1999, 2004) both started in June • Additionally, the final rate hike in the previous tightening cycle occurred on June 29, 2006 **3. Simply Put, "We're Due"** • Since 1971, the Fed has changed the Federal Funds Rate target, on average, once every 1.83 years • People who believe in "being due" also like to analyze averages as opposed to medians **4. "It's Taking Too Long"** • The longest stretch of time without a change in short-rates is the current period (6.25 years at present) • For hawks, the period of emergency accommodation will have lasted nearly 6.5 years if the first rate hike occurs in June • The second-longest stretch with no change to policy was 1.51 years, from March 25, 1997 to September 29, 1998 • That period was particularly difficult for markets, given that the Fed ended its easing cycle in January 1996, hiked rates in March 1997, then cut again in September 1998 **5. Small, Gradual Changes in Policy Are Actually Much**

More Common than Larger Shifts • Many investors don't realize that the Fed will continue to manage policy in a range, or "band" (currently 0–25 basis points (bp)), as it tightens policy rates[1] • This provides additional flexibility, given the growth in size of the Fed's balance sheet • Some forecasters are saying there is a small probability that the Fed will hike by 0.125% in order to give added margin for error if the economy begins to sputter at the first hint of tightening[2] • In 1971, '73, '75, '76, '77, '78, '79, '83, '86, '87, '88 and '89 the Fed altered policy by as little as 1/8% at its meetings • This seems like a remarkable level of rate "fine tuning", particularly during periods of double-digit short-rates **6. The Blockhead Argument: "The Fed Will Be Forced to Reverse Course Just like Europe Did"** • Not surprisingly, the most frequent months for interest rate cuts are November and December • This could be explained by the reluctance in risk-taking going into the end of the year and seasonal tightness of funding markets in December **7. The Fed Has Hiked Rates, on Average, More Frequently than It Has Cut Rates** • This has historically been driven by the fact that rates (until recently) have been zero bound • Also, the so-called "dual mandate" has only been in effect since 1978 • According to the Fed, it could find no reference to "full employment" in its policy directives prior to 2008[3] **8. The Fed Was Nearly Twice as Active in the '70s and '80s as It Was in the '90s and '00s** • It was also much less predictable in its policy changes during the earlier periods, often alternating between cuts and hikes • An argument could be made that with increased experience and access to data, today's policy makers could be less active than their predecessors • However, during the Greenspan era, the target rate was altered once every 78 days, on average • The median period between rate changes was just 45 days **9. G. William Miller (Fed Chairman 3/8/78–8/6/79) Hiked Interest Rates 20 times and Never Cut Them** • Based on policy stats alone, Miller is the only Fed chairman to hike interest rates more than he cut them • Unfortunately for the U.S. economy, those 20 interest hikes amounted to only an increase of 3.88% in the effective Fed Funds Rate target • Despite his tightening record, he actually wasn't hawkish enough • In a perplexing sign of faith, Jimmy Carter "demoted" Miller from Fed chair to Treasury secretary, the only person in history to hold both offices **10. Presidential Campaign Season Is Starting Up** • There have been 17 presidents vs. 15 Fed chairs since 1913 • Chairman Yellen's current term as chair is scheduled to end February 3, 2018 • Her term as a member of the board expires January 31, 2024 • Monetary policy is broadly balanced in presidential election years • 32 hikes vs. 26 cuts over the course of the calendar year [1]Board of Governors of the Federal Reserve System, "Policy Normalization Principles and Plans", 9/17/14. [2]Source: Goldman Sachs, 3/23/15. [3]Daniel L. Thornton, "The Dual Mandate: Has the Fed Changed Its Objective?," Federal Reserve Bank of St. Louis Review, March/April 2012.

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DEFINITIONS

Zero-bound policy rates : central bank policy rates close to the 0% level.

Federal Reserve : The Federal Reserve System is the central banking system of the United States.

Real interest rate : Interest rate accounting for the impact of inflation. From the nominal interest rate, which does not account for the impact of inflation, the rate of inflation is subtracted to get to the real interest rate.

Tighten : a decline in the amount of compensation bond holders require to lend to risky borrowers. When spreads tighten, the market is implying that borrowers pose less risk to lenders.

Median : The median is the value within a dataset at which 50% of all observations occur above and 50% occur below.

Hawkish : Description used when worries about inflation are the primary concerns in setting monetary policy decisions.

Basis point : 1/100th of 1 percent.

Short (or Short Position) : The sale of a borrowed security, commodity or currency with the expectation that the asset will fall in value, the opposite of Long (or Long Position).

Risk : Also standard deviation, which measures the spread of actual returns around an average return during a specific period. Higher risk indicates greater potential for returns to be farther away from this average.

Federal Funds Rate : The rate that banks that are members of the Federal Reserve system charge on overnight loans to one another. The Federal Open Market Committee sets this rate. Also referred to as the “policy rate” of the U.S. Federal Reserve.

Monetary policy : Actions of a central bank or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.