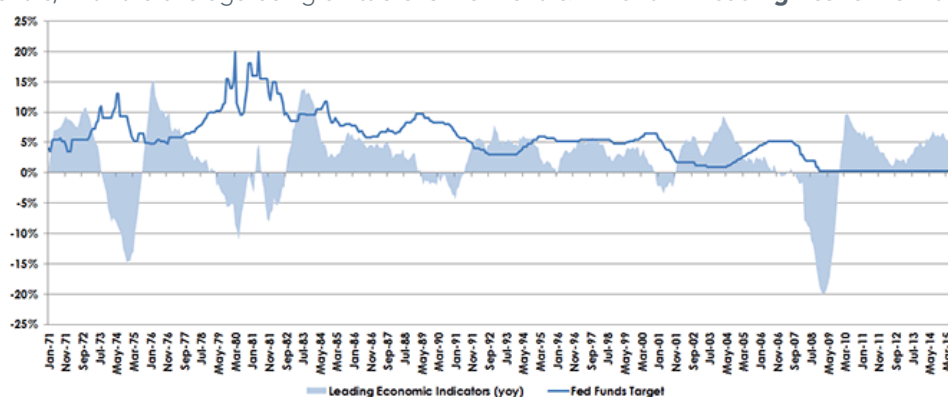


# LEADING ECONOMIC INDICATORS SUGGEST IT'S TIME FOR THE FED TO HIKE

**Rick Harper — Chief Investment Officer, Fixed Income and Model Portfolios**  
09/14/2015

With the underlying improvement in the August employment report, domestic economic strength continues to move the Federal Reserve (Fed) toward liftoff. Leading economic indicators would suggest it is about time: the trend has been above zero for 68 consecutive months. This is the longest period of Fed inactivity on rates amid economic recovery since 1971. While the expansion has been noteworthy for its lack of robustness, it is still a very long time to remain in positive territory without a [monetary policy](#) adjustment. The [Leading Economic Indicators Index](#) is a composite of 10 economic and market indicators, whose levels and changes tend to foreshadow changes in the overall economy. Building permits, average weekly hours, new orders and the spread between [10-Year Treasuries](#) and the [Federal Funds Rate](#) are just a few of the indicators incorporated into the index. It is published every month by The Conference Board. The trend in leading economic indicators (year over year) has been relatively useful in validating thoughts on the economy and monetary policy. For example, the Fed punctuated both the 1994–1995 and 1999–2000 tightening cycles by hiking rates when the trend in leading economic indicators was decelerating rapidly. Both periods presented tremendous opportunities for bond managers to lengthen [duration](#). **Recent Period of Strength Is Longest by Far** With the trend exceeding 4% since mid-2013, I was curious about how this recent period of strength compared to other periods. As illustrated in the graph and table below, there have been seven periods since 1971 in which the trend in leading economic indicators has remained positive for an extended period of time. The previous six periods have averaged 54 months in length, with average Fed rate movements of +2.33%. Interestingly, the time until the first rate hike in these periods has ranged from 1 month to 36 months, with the average being a little over 15 months. **Trend in Leading Economic Indicators vs. Fed**



**Funds Target**

**Policy Changes in Regimes of Positive Trends in Leading Economic Indicators, January 1971- July 2015**

**Monetary**

Start	End	Consecutive Months LEI Trend Positive	Month of First Hike	Months to First Hike	Beginning Fed Funds Rate	Ending Fed Funds Rate	Fed Funds Target Change over Period	Max Fed Funds Rate over Period	Fed Funds from Start to Peak
January-71	August-73	32	March-71	2	4.00	11.00	7.00	11.00	7.00
September-75	March-79	43	April-76	6	6.50	10.00	3.50	10.00	3.50
September-82	April-89	80	May-83	8	10.00	9.00	-1.00	11.75	1.75
July-91	December-95	54	February-94	31	5.75	5.50	-0.25	6.00	0.25
February-96	October-00	57	March-97	13	5.25	6.50	1.25	6.50	1.25
December-01	October-06	59	June-04	30	1.75	5.25	3.50	5.25	3.50
December-09	July-15	68	TBD	TBD	0.25	0.25	0.00	0.25	0.00
Average excluding 12/2009-7/2015		54		15			2.33		2.88

Sources: WisdomTree, Bloomberg, The Conference Board.

This recent streak, which started at the end of 2009, is now 68 months old, and still the Fed remains inactive—37 months longer than the second-longest period. The extraordinary monetary policy triggered by the financial crisis has in many ways overwhelmed economic fundamentals and altered incentives for participants in the capital markets. But followers of economic cycles continue to keep nuggets of information like this in their back pockets and wonder whether the Fed's inactivity in recent years could come back to haunt us when cyclical forces return. With the markets still relatively complacent about the upcoming Fed meeting, [we could see rates adjust higher](#) and additional [volatility](#) in the equity and commodity markets. The August employment reports could give the Federal Reserve the domestic cover to hike rates despite lingering global concerns. The trend in leading economic indicators would argue it's about time.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

For more investing insights, check out our [Economic & Market Outlook](#)

View the online version of this article [here](#).

## **IMPORTANT INFORMATION**

**U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.**

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages ([www.msci.com](http://www.msci.com))

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.

You cannot invest directly in an index.

## **DEFINITIONS**

**Monetary easing policies** : Actions undertaken by a central bank with the ultimate desired effect of lowering interest rates and stimulating the economy.

**U.S. 10 Year Treasury Note** : A debt obligation issued by the United States government that matures in 10 years.

**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.

**Duration** : A measure of a bond’s sensitivity to changes in interest rates. The weighted average accounts for the various durations of the bonds purchased as well as the proportion of the total government bond portfolio that they make up.

**Volatility** : A measure of the dispersion of actual returns around a particular average level.&nbsp;. .