



2006 Financial Markets

Jacob Yadegar forecasts what's in store for our pocket books in the New Year.

By Jacob Yadegar

At the beginning of the new year, the first thing most people want to know is what will happen to interest rates? I expect that unemployment rates will remain at the present low levels and overall, I expect a good healthy outlook for the employment market that will drive the general economy.

Inflation made an entrance to center stage in 2005. In fact, just two years ago, the fear of deflation was rampant in the market. The revival of inflation is the primary cause for higher interest rates. Inflation is the arch enemy of bonds and interest rates. I expect inflation to be a minor issue for 2006, but I expect it to be tame due to the series of Fed rate hikes and the global economy and marketplace. With Gold at a 25 year high, the market is fearful of inflation but the recent run up in gold prices is due to lack of supply.

After 18 years at the helm, Alan Greenspan will be retiring to allow Ben Bernanke to take over as the new Fed Chair. I think we are in for one or maybe two more quarter point rate hikes with the January 31 meeting being the last with Greenspan at the helm. The subsequent Fed meeting will be held in March and Bernanke will most likely increase rates a quarter percent to show that he is just as vigilant against inflation as Greenspan. After that, we will see a stop to the rate hikes until further market data will determine the future of rates.

The rate hikes that we have seen will have a minor effect on the real estate market, but for the most part I

expect real estate to stay relatively strong and stable in 2006.

While interest rates on variable rate mortgages have risen, fixed rates remain extremely attractive. Un

employment and rising income will support the real estate market going forward along with the increase in enterpenuership brought on by advances in technology.

This will be the fifth year of the anticipated housing bubble. So does a bubble exist? Clearly, not. There will be a cooling in some areas after an enormous run up.

Other markets may suffer due to rampant speculative buying but for the most part, there will be stable and solid growth for 2006. I am not looking for a bust in prices, just a slower rate of appreciation. I expect most of the country to see home prices appreciate by 2 to 4 percent.

The Stock Market should thrive as corporate America continues to post double digit profit gains, and the foreign appetite for U.S. Bonds should stay relatively strong as we are still the only real "safe-haven" in the world. Overall, 2006 should be a strong year for the financial markets.

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