Executive Economic Outlook And Summary

Multop Financial
Private Wealth Management & Tax Expertise

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The Bulls are back in town. That is Multop Financial's official position as we look towards the end of 2016 and into 2017. According to the Dow Theory, the primary trend in equity markets has moved from a Bear trend into a Bull trend. This is significant because it allows investors to view market volatility in a different light as Bull markets usually last for three to four years. Under a Bear market, volatility can mean substantial downward movement and can cause anxiety for investors. Bull markets are different; volatility in these types of markets should be viewed as buying opportunities providing the investor with increased chances for superior gains.

When do we expect to see another recession domestically? It's not very likely in the near future. According to the "Study of Business Cycles" from Columbia University, one fairly accurate metric indicates we likely won't see one until 2021. Interestingly enough, this timeline falls right in line with the typical Bull market run. That's good news for your portfolio.

Domestically, we've all been overwhelmed with the amount of press our Presidential election has generated. But when it comes to investing, the truth is, it doesn't really matter. Despite what the talking heads will try and convince you of on your favorite news channel, equity markets don't care which party occupies the White House. What they do care about is corporate profits. While the President does have the ability to implement legislation that could affect corporate profits, it isn't something that happens overnight. Just remember this; long-term investors who began investing in any election year have generally come out ahead, regardless of the winning party.

Our Federal Reserve will likely increase interest rates in December, but in reality this won't have much of an impact either. Increasing interest rates by 0.25% isn't meaningful enough to cause a major headwind to stocks. In fact, it actually points to our economic strength and suggests that we are moving forward in a stronger position than we were in the recent past. In conjunction with a Bull market, this makes a strong argument to embrace stocks at this time.

Here are a few economic figures we believe are worth noticing:

- **The S&P/Case-Shiller Index** reports national home prices are continuing to rise with the index sitting at 191.66 in August, representing a 5.3% annual increase. Seattle and Portland earned the top spots boasting an 11.7% & 11.4% gains respectively.
- **The Conference Board Consumer Confidence Index ®** slightly decreased in July, increased in August and has further improved in September. The index now stands at 104.1, compared to six months earlier when it sat at 94.2 in April. The Present Situation Index rose from 125.3 to 128.5, while the Expectations Index improved from 86.1 last month to 87.8.
- **The Institute for Supply Management's PMI ® Index** reported at 51.5% in September, demonstrating a 2.1% increase over August. According to the ISM, economic activity in the manufacturing sector expanded in September following one month of contraction in August, and the overall economy grew for the 88th consecutive month.
- **The National Federation of Independent Business** report signals of higher unemployment stating fewer job openings could nudge jobless rate upward in the coming months. Twenty-four percent of small business owners reported job openings in September, a six-point plunge from the previous month.
- **The Commerce Department** reported personal consumption expenditures have increased $6.2 billion or >0.1% in August continuing the positive trend in consumer spending at a slower pace.
- **The Bureau of Labor Statistics** reports the official unemployment rate (U-3) at 4.8 in September. The Bureau continues by reporting that among the marginally attached, there were 553,000 discouraged workers in September, little difference from a year earlier representing a U-6 unemployment rate of 9.3%, down 0.3% overall since September 2015.
- **U.S. Real Gross Domestic Product,** increased at an annual rate of 1.4% in the second quarter of 2016, according to the "third" estimate released by the Bureau of Economic Analysis. The most notable change from the second estimate of 1.1% to the third was due to nonresidential fixed investment increased in the second quarter; in the previous estimate, nonresidential fixed investment decreased.

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- **CBOE Volatility Index (VIX)** has remained relatively low with minor spikes over the past few months; the most notable being in June sitting at 25.76. Over the past year, it has sat as low as 11.02 and as high as 32.09; currently closing at 13.34 at the end of October.
- **Playing in the oil patch** Oil prices have been trending up since OPEC's late-September agreement for a preliminary cap on production, resulting in prices climbing into the $40-$50 per barrel range. Assuming production cuts last, it could set the stage for oil to return to a price north of $50 per barrel. According to analysts, obstacles to this happening are largely due to the unreliable nature of Russia's compliance within OPEC and US producers increasing their drilling operations.

Internationally, we have seen some very interesting developments over the past six months. Namely, the "Brexit" vote turned out to be short-lived and did not have a significant impact, as we expected. If you watched the news the day after the vote you would have thought the sky was falling and that we were heading into a global recession. But not even three days later the markets had fully recovered and it was back to business as usual. These types of events underscore the importance of not paying attention to the media hype surrounding one event and instead focusing on the economic fundamentals which will ultimately rule the day.

Emerging Markets have struggled for the past several years but have finally begun to see meaningful gains in this segment of the market. Even though returns overall are positive, it is important to note this asset class of investments is not appropriate for all investors. Emerging Markets can, and have, experienced sudden drops in value without warning mostly due to the lack of transparency within the governments of these countries and sudden currency fluctuations. If Emerging Markets are a type of investment you are interested in, it is important to keep in mind that diversification within this area is imperative.

What does this mean for your investment portfolio? Because we are in the infancy stage of the current Bull market, investors should look at investments with more optimism. Primarily we favor large-cap, domestic equities at the core of your portfolio. This means you may want to increase your exposure to equities to take advantage of an up-ticking market. Also, relative to bond yields, the S&P 500 index appears quite cheap. In the short-term it may be well advised to stay away from the Telecom, Utility, and Energy sectors since we are no longer in an "Interest Rate Driven" market. With the Bulls charging ahead we will likely see an "Earnings Driven Market" moving forward. Ultimately, corporate earnings are what drive the stock market over the long-term. If you currently are one of our valued clients, please rest assured your portfolio already reflects this investment philosophy.

If you are not yet a client and would like to get access to these strategies please contact our team to find out what would be the most appropriate allocation for you.

You may call (888) 671-7891 to schedule a free investment consultation.

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