Executive Economic Outlook And Summary

MULTOP FINANCIAL
Private Wealth Management & Tax Expertise

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As stated in a fifth century proverbial poem, "Patience is a virtue" - and when it comes to investing this is especially true. Six months ago, in our last economic outlook, Multop Financial's official position was "And this, too, shall pass", meaning we expected the stock market correction to find its low and begin to turn around. This appears to have been an accurate assessment as the market bottomed on February 11, 2016. However, it is important to keep in mind that just because the markets have come off their lows, it doesn't mean we are out of the woods... Market corrections are inevitable and statistically we were overdue for one. But as investors, how we deal with market corrections can dramatically affect our outcomes and that's why we recommended clients to remain largely invested. The major indexes have come off their February lows but looking back over the past 12 months, all are still negative. According to The Dow Theory, the primary trend in the market is currently bearish, so embracing stocks should be approached with caution.

Domestically, the Federal Reserve has been back and forth about how many rate increases they will implement this year, initially stating there would be several, then backing off those remarks. More recently, they have indicated that investors should expect additional rate hikes in the future. Economic conditions in our domestic economy continue to remain mostly positive and have been fairly resilient despite several threats from international issues such as terrorist attacks and the ongoing European Union break-up talks. This should be viewed as an encouraging fundamental force in the market, but it does not mean the market will unilaterally move upward from here on. Multop Financial believes over the next six months we will see equity markets move in a more range-bound fashion, tempting us with periods of upward momentum before retracting those gains and then beginning the cycle again. We expect this to continue up through the presidential election in November.

Major Index Performance 5/17/15 – 5-17/16

Dow Industrials	-4.36%
S&P 500	-3.93%
Russel 2000	-12.57%
Nasdaq 100	-7.01%

Presidential election years can make the market a little shaky leading up to the November election, but generally the market moves positively in the first year of a President's first term regardless of who wins. When it comes to your portfolio it actually doesn't matter much which party wins the White House. Statistics suggest the market will do well once we know who is in office.

Here are a few economic statistics worth looking at:

- **The S&P/Case-Shiller Index** reports home prices are continuing to rise with the index sitting at 182.79 in February. National inventory levels of homes available for sale have not kept up with demand, causing prices to increase.
- **The Conference Board Consumer Confidence Index ®** has shown mixed results over the first part of 2016. Posting a decrease in February, the index improved in March and moderately declined in April. The index now stands at 94.2, down from 96.1 in March. The Present Situation Index increased from 114.9 to 116.4, while the Expectations Index decreased from 83.6 to 79.3 in April.
- **The Institute for Supply Management's PMI ® Index** reported at 50.8% in April, demonstrating a 1.0% decline over March. According to the ISM, the majority of respondents' comments indicate that business is holding steady, revenue is almost as anticipated and costs have decreased which is helping to maintain current profitability in finance and insurance.
- **The National Federation of Independent Business** shows average small business employment slightly weakened in April. According to NFIB Chief Economist William Dunkelberg, hiring activities have increased, but applicants are not qualified for the open positions. The average employment change during the month of April decreased to an average loss of 0.08 workers per firm.
- **The Commerce Department** reported personal consumption expenditures increased $12.8 billion or 0.1% in March continuing the positive trend in consumer spending but at a slower pace over February's increase of 0.2%.

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- **The Bureau of Labor Statistics** reported the official unemployment rate in April at 5.0%. However, if you add back in the marginally attached, there were 568,000 discouraged workers in April, down by 188,000 from a year earlier; representing a decrease since last year with the unemployment rate, seasonally adjusted, (U-6) sitting at 9.7%, down 1.1% overall since April 2015.

- **U.S. Real Gross Domestic Product** increased at an annual rate of only 0.5% in the first quarter of 2016. The increase in real GDP in the first quarter reflected positive contributions from personal consumption expenditures, residential fixed investment, and state and local government spending.

- **CBOE Volatility Index (VIX)** closed at 14.68 in mid-May and has continued to remain low since late March. At the beginning of 2016 we saw the highest values on the index since August 2015, but has steadily returned to lower values.

- **Playing in the oil patch.** Oil prices have plagued stocks over the past year moving downward almost in lockstep with one another. Global oil production has exceeded demand for several years now and inventories of crude stand near record highs across the globe. Despite this, many analysts are calling for oil to exceed $50 later this year due to strong demand in China and India coupled with pipeline outages in Nigeria and Canada.

Stimulus programs in Asia and the Eurozone as well as the threat of Great Britain exiting the European Union altogether underscore the economic troubles overseas. While the stimulus will likely help bond prices in both regions, it also creates global uncertainty. In addition, they have adopted a negative interest-rate policy, essentially charging a fee for bank reserves in an attempt to revitalize the economy. Naturally, the effects on inflation and real output have been hurt by these measures. Monetary policy is an effective means of managing inflation and can boost employment and output in a recession. Lowering interest rates below zero, however, has hurt banks' balance sheets, reducing their lending capacity. As a result, it has failed to increase business investment. Even low positive interest rates, if maintained for a prolonged period, could backfire, fueling asset bubbles and enabling household and corporate debt to grow to unsustainable levels.

What does all this mean to your portfolio? At Multop Financial we believe equity markets are likely to move in a sideways pattern for the next several months with periods of upward and downward momentum. Since the primary market trend remains bearish investors should be wary of chasing after sectors experiencing short periods of gains - this could be a trap. A properly diversified portfolio will help keep your account portfolio durable in market conditions like this. Maintaining domestic, large-cap, equity investments which pay stable dividends along with a smaller component of investments with low volatility including international bonds are recommended at this time.

If you are not yet a client and would like to get more access to our strategies please contact our team to investigate which allocation is the most appropriate for you.

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

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