The simple message is: “The economy is doing well.” These were the words from Janet Yellen, Federal Reserve Chairwoman, on March 15th, 2017. Multop Financial agrees with this statement and believes the long-term outlook for the US economy remains largely positive. Equity markets are hitting new all-time highs and bond yields remain low, all culminating for a strong start to 2017, but how long will it continue? Most economic scholars would agree there is little to no chance of our economy falling into recession in the near future. Consumer confidence, housing prices, factory and service sectors as well as technology are all strong. Volatility is at a historic low, US unemployment continues to decline and corporate profits are strong. Put all of these factors together and you get a strong stock market. It all sounds good, but one must remember that markets don’t move continually upward in a straight line. While this Bull Market is almost certain to continue its run, it’s likely that we will see a pullback sometime in the next six months.

Right now the highest level of risk is centered around the possibility of unpredictable events and the risk they could pose to the US economy. Most notably is the continued threat of terrorism, rogue nations attempting to try and legitimize themselves through a show of force, and our seemingly never-ending political soap opera in Washington DC. While most of these threats are not likely, they do have the potential to temporarily hinder the stock market. The key to fully understanding this philosophy is the word “temporary.” While it may have an immediate impact on stock prices, it is very unlikely to have a lasting effect, meaning any drops in the market should be viewed within the contexts of an underlying Bull Market, strengthening economic conditions and overall optimism by US consumers. Simply put, our opinion is that any dip in the market would be temporary at best.

Corporate tax reform is an issue that also merits discussion with respect to your investments. The reality is that if taxes go down, earnings will go up. If corporate earnings go up, so will stock prices. The stock market has already priced this into its valuations to some degree. Now the question is more focused on what level of reform will happen and how that will impact the forward expectations of earnings.

Here are a few economic statistics worth looking at:

- **The S&P/Case-Shiller Index** reports that national home prices are still continuing to rise with the index sitting at 193.49 in February, representing a 5.85% annual increase. Seattle and Portland earned the top spots again boasting 12.18% & 9.67% gains respectively.

- **The Conference Board Consumer Confidence Index ®** which had increased in March, declined in April. The index now stands at 120.3, down from 124.9 in March. The Present Situation Index decreased from 143.9 to 140.6 and the Expectations Index declined from 112.3 to 106.7 last month.

- **The Institute for Supply Management’s PMI ® Index** reported at 54.8% in April, demonstrating a 4.2% decrease over March. According to the ISM, economic activity in the manufacturing sector expanded in April and the overall economy grew for the 95th consecutive month.

- **The National Federation of Independent Business** report signaled small business owners’ confidence in the future of the U.S. economy is stimulating employment growth in the small business sector. 55% of owners reported hiring or trying to hire workers. Reports of compensation increases had faded by 2 points but remain historically strong.

- **The Commerce Department** reported that personal consumption expenditures have increased $40.0 billion or 0.2% in March continuing the positive trend in consumer spending at a steady pace.

- **The Bureau of Labor Statistics** reports that the official unemployment rate (U-3) in April was 4.4%. There were 445,000 discouraged workers among the marginally attached, which is down by 113,000 compared to the previous year. The U-6 unemployment rate was 8.6%, which is down 11% since April 2016.

- **U.S. Real Gross Domestic Product** increased at an annual rate of 1.2% in the first quarter of 2017, according to the “second” estimate released by the Bureau of Economic Analysis. The most notable change from the first estimate of 0.7% to the second was due to increases in nonresidential fixed investments and personal consumption expenditures that were larger than previously estimated.
• **CBOE Volatility Index (VIX)** is hovering near historic lows with minor spikes over the past year; the most notable being in November sitting at 22.51. Over the past year, it has sat as low as 9.77 and as high as 25.76; currently closing at 10.41 at the end of May.

• **Playing in the oil patch.** Oil prices have been trending downward since reaching their peak in early January of $57 per barrel. OPEC recently announced that it will be extending production cuts into 2018 in an effort to reduce current global supply and oil stockpiles. As such, many analysts believe that the price per barrel could climb back up over $50 by the end of the year. However, there is a strong likelihood that U.S. oil production will continue to climb, which may cause more volatility in the balance between supply and demand.

Developed international markets have seen very positive returns as of late. This was long overdue, as they have lagged for several years, mostly due to turmoil in Europe and Asia. We believe this trend will continue as economic conditions internationally continue to show stability and growth. The European Central Bank (Europe’s equivalent to our Federal Reserve) will likely begin to introduce a means of exiting its current stimulus program very soon.

Strength in Emerging Markets is likely to continue as well. What started as an outperformance in Asian markets has now spread to Africa, the Middle East, and emerging Euro countries. The fact that a majority of Emerging Markets in different regions of the world is outperforming right now is a very bullish sign for investors interested in profiting from this long term trend. Historically, Emerging Markets have periodically outperformed US stock markets for several consecutive years but they have also underperformed for several consecutive years. What makes this situation attractive is that we have experienced a multi-year period of underperformance and now we are seeing the beginnings of what appears to be a reversal of that trend.

What does this mean for your investment portfolio? Multop Financial believes that investment portfolios should remain fully invested, primarily in domestic equities with an increased exposure to international and emerging market equities in accordance with an individual’s risk tolerance and time horizons. We anticipate increased corporate earnings to continue, so we advise maintaining a bias towards companies participating in this trend. While the economy is improving and market volatility is low, investors should keep in mind that corrections can happen at any time and, in our opinion, should be viewed as a buying opportunity. 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.

The summarizations and outlooks presented here are to be used for overview purposes only and are prepared according to the opinions of Phillip Multop and Multop Financial. Specific portfolio recommendations should be made after careful advisement and advice with your personal financial advisor. Past performance is not a guarantee of future results. Investors cannot invest directly in indexes. The performance of any index is not indicative of the performance of any investment and does not take into account the effects of inflation and the fees and expenses associated with investing. Phillip Multop is a Certified Financial Planner with a Master's Degree in Taxation. Please browse our website to learn about our recent awards and recognitions as well as the firm’s client objectives and investment philosophies.

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