Executive Economic Outlook And Summary

Fall/Winter 2019/2020

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It's a roller-coaster world we live in these days, isn't it? A trade war with China, negative interest rates in international markets, rising U.S. wages, historically low unemployment, strong corporate earnings, a resilient U.S. consumer, inverted yield curves, political disfunction, our Federal Reserve making sudden changes in direction, turbulence on Wall Street as U.S. markets hover around all time highs, and the list goes on and on. How does the average investor make sense of it all? The answer is you can't, nor should you even try. Our semi-annual Economic Outlook articles are designed to focus on the market condition and fact situation, but the circumstances of recent times force us to mention what might be the most important take-away for this six-month period -- times like this underscore the importance of why you have hired a financial advisor. Sifting through all the noise to make sense of the incredible sensationalism thrown at us daily can be overwhelming to say the least. Should I buy? Should I sell? Monday the market is up, Tuesday it's down, Wednesday it does both. The reality is that these things all contribute to investors making emotional decisions and losing focus on the fundamentals. Our job as advisors is to help you remain disciplined with your investments and keep a focus on the long-term picture. That's probably the most valuable piece of advice we can offer today. Let us work for you.

While the U.S. economic picture remains positive, threats to its stability have emerged. The biggest threat comes from overseas. International economies have started to show signs of a slowdown and if that materializes into full-blown recessions it will impact the U.S. economy eventually; the degree to which remains to be seen. Talks about the U.S. heading into a recession are premature and should not be acted upon - for now. While most U.S. economic data suggests continued growth and stability, that stability should not be misinterpreted as invincibility. We are likely heading into a market climate of increased volatility over the next 6-12 months and being properly diversified to manage your risk exposure so it matches your risk tolerance should be a priority. Just remember, the U.S. consumer is strong and so are corporate earnings and that is what ultimately drives stock prices over the long run. But if you have a weak stomach for volatility, or if you have a short time horizon for holding investments, the time for an advisor/client discussion is now.

Historically, in times like this, we would expect to see the U.S. market continue to make gains but with increased volatility. The data shows that on average if the market has gone up by about 12% over the last 12-months, it will peak in 18-months and a recession will occur in 22-months. So speaking from a historical prospective, this bull still has legs but we are getting closer to the end of its run.

Facts to consider:

- **The S&P/Case-Shiller Index** reports that national home prices have continued to steadily increase since 2012 with the index sitting at 216.03 in June.
- **The Conference Board Consumer Confidence Index ®** declined marginally in August, following the rebound in July. The index now stands at 135.1, up from 135.8 in July.
- **The Institute for Supply Management's PMI ® Index** reported at 49.1 in August, demonstrating a 2.1 decrease from the July reading of 51.2. Generally, business remains steady. However, we continue to plan for a hard Brexit and a long trade war between the U.S. and China.
- **The National Federation of Independent Business** reported small business employers continue to grow and add jobs despite talk of a potential economic slowdown. continue strong hiring trends in July. A record 27% of small business owners rank finding qualified workers as their No. 1 business problem.
- **The Commerce Department** reported that personal consumption expenditures has increased $93.1 billion or 0.6% in July. The increase in personal income in July of $23.9 billion or 0.1% primarily reflected increases in compensation of employees and government social benefits to person that were partially offset by a decrease in personal interest income.

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- **The Bureau of Labor Statistics** reports that the official unemployment rate (U-3) seasonally adjusted in August was 3.7%. The U-6 unemployment rate, a more comprehensive measure of unemployment, was 7.2% which is down 0.2% from August 2018, a year prior.
- **U.S. Real Gross Domestic Product** increased 2.0% in the second quarter of 2019 according to the Bureau of Economic Analysis. The increase in real GDP in the second quarter reflected positive contributions from PCE, federal government spending, and state and local government spending that were partly offset by negative contributions from private inventory investment, exports, residential fixed investment, and non-residential fixed investment.
- **CBOE Volatility Index (VIX)** has experienced quite a bit of volatility with a significant spike in December 2018, closing at its 52-week high at 36.07. In recent news, the index sits at 14.17 in September.
- **Playing in the Oil Patch:** Normally OPEC is in the driver's seat when it comes to oil prices but right now it appears all eyes are on the US as it works through China trade issues and a US Federal Reserve Board who recently signaled it would "do what it takes" to keep the current economic expansion going. Look for volatility in this area as markets digest newly released information and the summer driving season comes to an end.

Global economies are currently where the major uncertainty lies as the overall global economic picture appears to be slowing. "The global growth outlook has been deteriorating since the middle of last year." According to Jerome Powell, chairman of the Federal Reserve Bank, as stated on August 23rd. Multiple banks in Europe and Japan are actually charging people interest to hold their money, China's economy is feeling significant pressure resulting from impacts of the trade war, and the final deadline for UK's "Brexit" is fast approaching without a clear resolution in sight. For these reasons, amongst others, we are recommending that clients don't hold significant positions in international and emerging markets right now.

So, what is Multop Financial's current advice? For now, you should keep a large portion of your investments in high-quality domestic equities. This is due to the positive US economic data, good trade news, stronger than expected results in August's payroll additions according to ADP (one of the largest payroll processing companies), and the July factory order growth along with renewed optimism in the China trade negotiations saga. U.S. Bonds are still an important tool in the toolbox and should be increasingly used if economic conditions begin to deteriorate, but for now, keeping bond exposure limited to shorter-term bonds is preferred. If you move out of the market too soon, you can miss out on the interim growth before we eventually head into a bear market down the road.

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There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio.

Diversification does not protect against market risk.

Stock investing involves risk including loss of principal.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.