Executive Economic Outlook And Summary

Spring/Summer 2019

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"If you look at the American economy, the consumer is in good shape, balance sheets are in good shape, people are going back to the workforce, companies have plenty of capital," said JP Morgan Chase CEO Jamie Diamond on April 12th, 2019.

It is Multop Financial's opinion that looking out over a six to 12 month timeline, Mr. Diamond is likely spot on, but past that it is too early to say. We believe it's likely that the U.S. economy is in the late phase of our current economic expansion, meaning that while economic activity remains solid and clearly moving in a positive direction, it's time for investors to remind themselves that markets don't go up forever and keeping a keen eye out for the proverbial "canary in the coal mine" is always a necessity.

One such canary is the recent inverted yield curve of U.S. Treasury bonds. To most people the term "inverted yield curve" sounds like a foreign language, but to Economists and those working on Wall St., it's very significant. Inverted yield curves are when interest rates on short-term bonds are higher than rates on long-term bonds. It's an abnormal phenomenon that has accurately predicted every single recession occurring in the United States since 1970[1] - that's almost 50 years. The rule of thumb is that an inverted yield curve indicates a recession about a year out. So, while things look good now, its important that we don't start getting too comfortable.

With that said, the US economy grew faster than expected in the first quarter of 2019 and posted its best growth to start a year in four years. The Bureau of Economic Analysis reports first quarter GDP at 3.2 percent, significantly above the 2.5 percent estimate[2]. Other leading indicators also point to the same conclusion, equity markets are hitting new highs and corporate earnings remain steady. All in all, right now is a pretty good time to be engaging stocks in your portfolio. The only notable threats are international instability and trade issues but even those aren't seeming to slow down equities both domestic and abroad.

Facts to consider:

- **The S&P/Case-Shiller Index** reports that national home prices have continued to steadily increased since 2012 with the index sitting at 214.57 in January.
- **The Conference Board Consumer Confidence Index ®** declined in March, following an increase in February. The index now stands at 124.1 indicating a strong consumer.
- **The Institute for Supply Management's PMI ® Index** reported at 55.3 in March, demonstrating a 1.1% increase from the February reading of 54.2. Respondents are continuing to state that customer orders remain strong.
- **The National Federation of Independent Business** reported small business owners' wage costs rise as owners attract and retain needed workers. Small business owners continued to hire and create jobs in March, with 12% of owners reporting increasing employment an average of 2.7 workers per firm. Additionally, a net 33% of small business owners reported higher compensation in March.
- **The Commerce Department** reported that personal consumption expenditures have increased $8.6 billion or 0.1% in January. The increase in personal income in February of $42.0 billion or 0.2% primarily reflected increases in wages and salaries, government social benefits to persons, and proprietors' incomes that were partially offset by a decrease in personal interest income.
- **The Bureau of Labor Statistics** reports the official unemployment rate (U-3) in March was 3.8%, only 0.1% above a 49-year low. The U-6 unemployment rate, a more comprehensive measure also known as "total unemployment", was 7.3% which is down 0.6% from March 2018, a year prior.

[1] https://www.clevelandfed.org/our-research/indicators-and-data/yield-curve-and-gdp-growth.aspx
[2] https://www.bea.gov/data/gdp/gross-domestic-product

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- **U.S. Real Gross Domestic Product** increased 3.2% in the first quarter of 2019 according to the Bureau of Economic Analysis. Personal Consumption Expenditures (PCE), private inventory investment, exports, state and local government spending, and nonresidential fixed investment led with over 14 of 22 industry groups contributing to the increase in real GDP in the first quarter.
- **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. Currently the index sits at 12.42 in April.
- **Oil prices** are likely heading higher, not only due to the upcoming summer driving season but also due to an expected decrease in global supply as the Trump administration declined to renew exemptions on sanctions through the UN for the purchasing of Iranian oil.

International and Emerging Markets have both lagged U.S. equity markets so far this year. This is largely due to economic uncertainty, political instability, trade wars and a strong U.S. dollar. In Europe, the British parliament has failed numerous times in its attempts to reach a withdrawal agreement with the European Union, this is unsettling to investors because without an agreement trade in the Eurozone may see substantial disruptions. The current deadline is October 31, 2019. If no agreement is reached at that time, then the UK will leave without an agreement. Trade talks with China are continuing and appear promising but until we see a final agreement Wall St. remains skeptical. Because of these reasons we are favoring U.S. domestic equities over international and emerging.

What does all this mean for your investment portfolio? We currently are recommending investors remain fully invested with a strong focus on U.S. domestic equities. Fears surrounding a potentially looming recession are premature and do not warrant significant portfolio changes at this point. Global tensions and uncertainties make the risk level elevated for this asset class and when compared to domestic equities, they fall short. Bond rates remain low and are not offering competitive returns for investors. Overall, U.S. equities remain the pillar of strength amongst other asset classes - investors should allocate accordingly.

If you are currently one of our valued clients, your portfolio already reflects this philosophy. With regards to “risk tolerance” we will be reviewing each client’s level during our annual review appointments coming up over the summer months, and we advise investors in general to update your goals, tolerance, and overall plans at least annually to be confident about your positions in the market.

If you are not yet a client and would like to get access to these strategies, please contact our team for a complimentary consultation to review how we may be of service. 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.

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