

FEI—FINANCIAL EXECUTIVES INTERNATIONAL NORTHEASTERN WISCONSIN CHAPTER

2017 ECONOMIC OUTLOOK & CAPITAL MARKETS OVERVIEW

JOHN THAYER, CFA

SARA WALKER, CFA

APRIL 18, 2017



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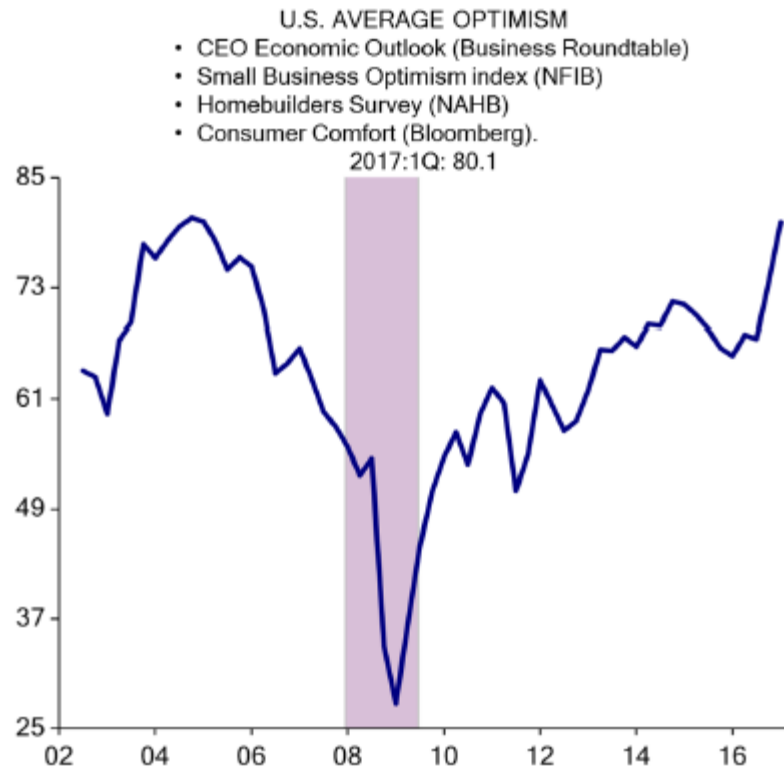


STEADY AS SHE GOES



OPTIMISM & CONFIDENCE RISING

CONSUMERS, BUSINESSES AND HOMEBUILDERS ALL FEELING BETTER

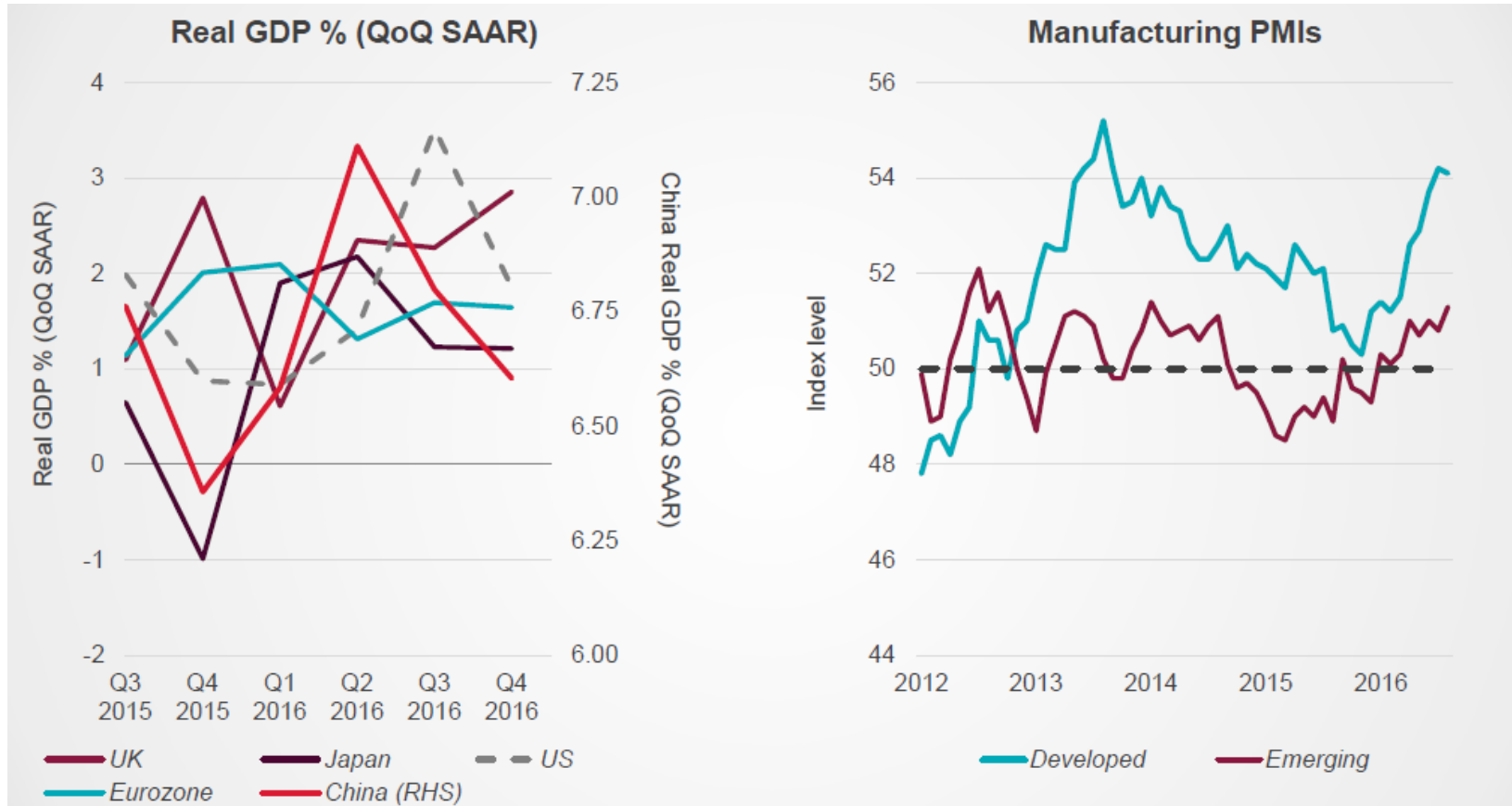


Source: Evercore ISI



SYNCHRONIZED GLOBAL EXPANSION

US, DEVELOPED AND EMERGING MARKETS ALL SHOWING SIGNS OF GROWTH

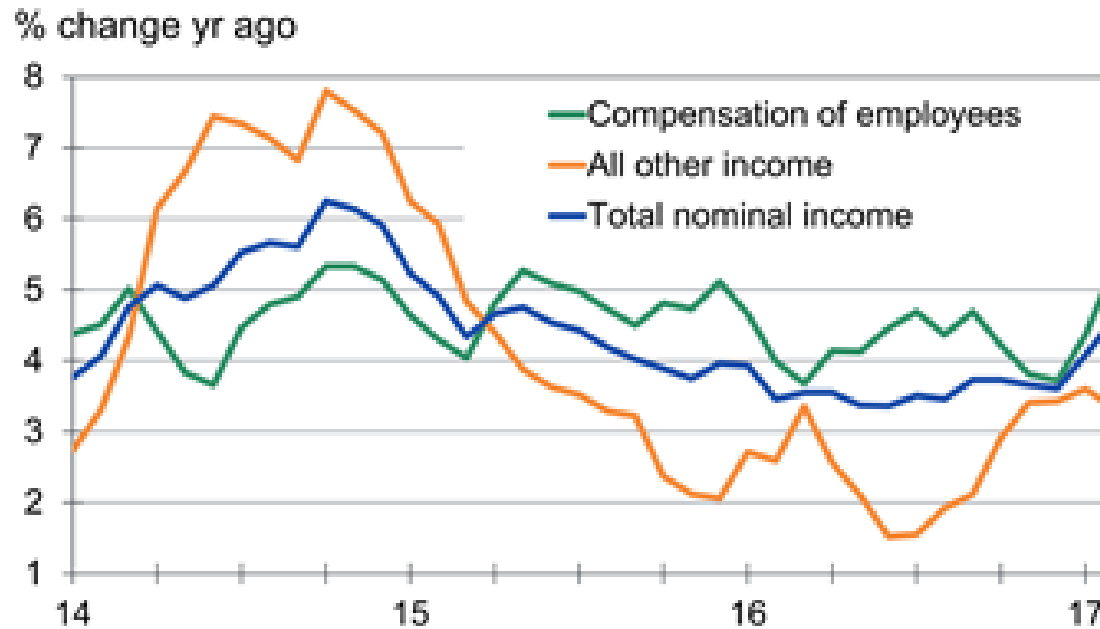


Source: Haver Analytics, Bloomberg, Market Insights



EMPLOYMENT IS A POWERFUL ELIXIR

The Composition of Income Growth



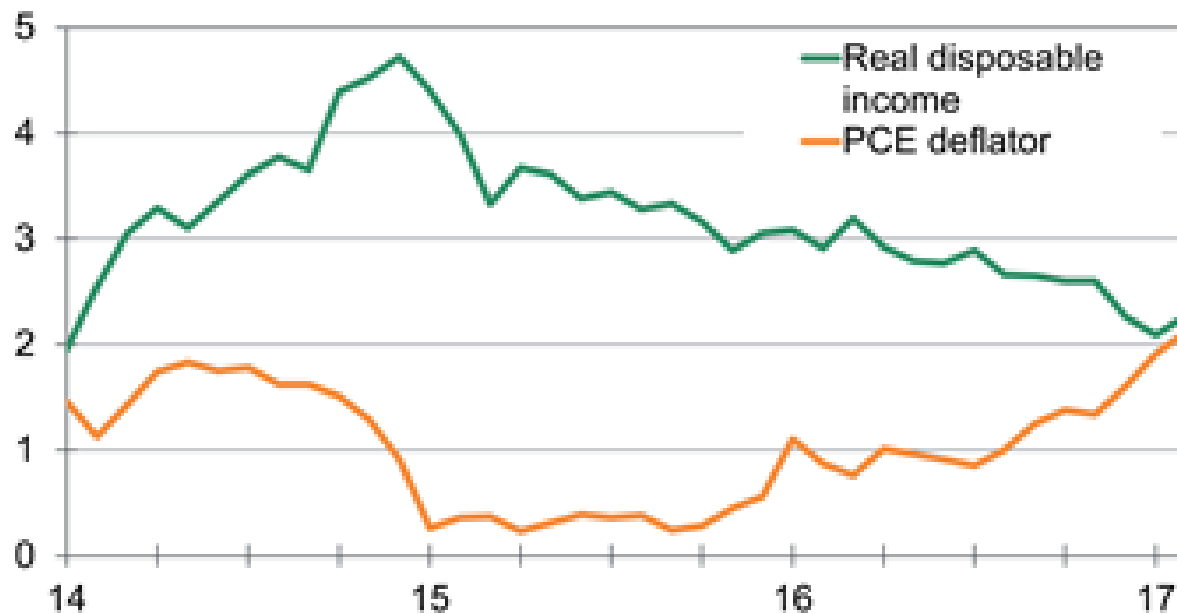
Sources: BEA, Moody's Analytics



LATEST BRICK IN THE WALL OF WORRY

Inflation Cuts Into Real Income Growth

% change yr ago



Sources: BEA, Moody's Analytics



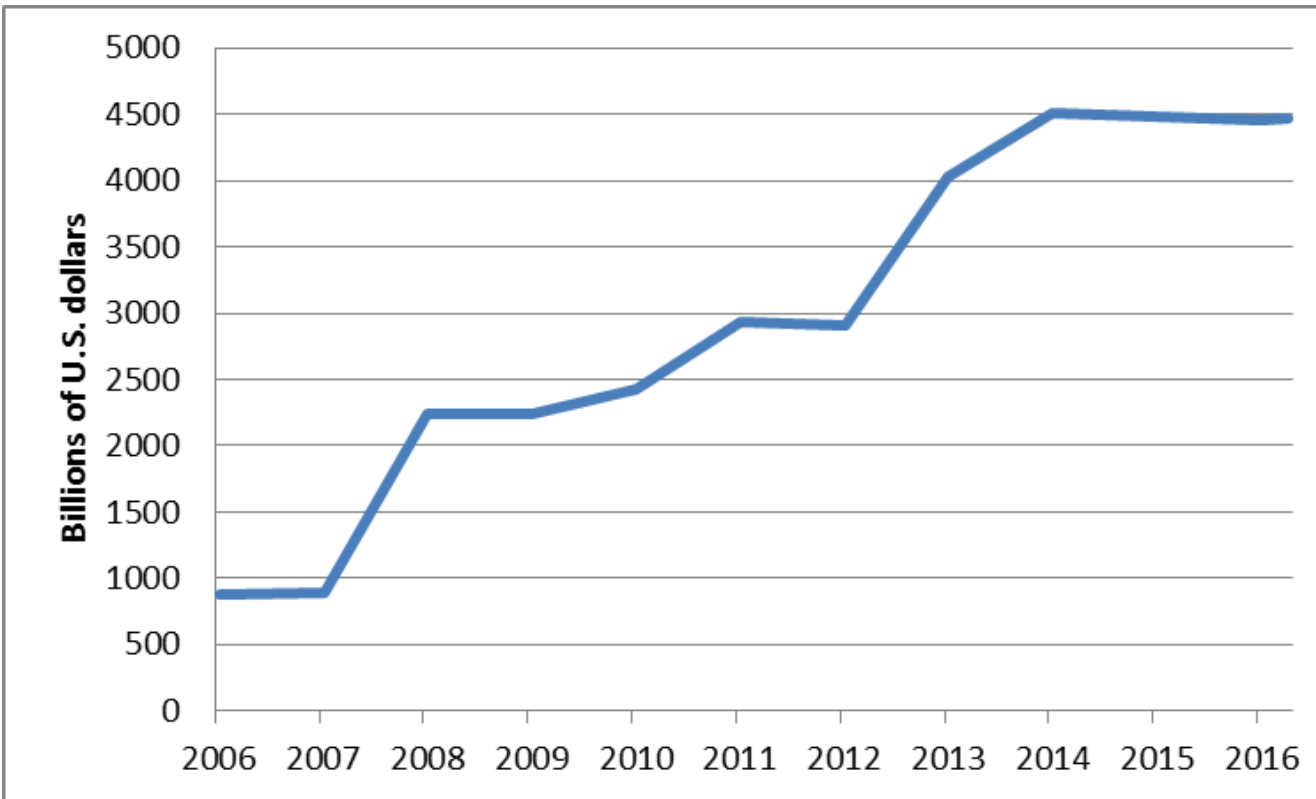
FED'S FAVORITE MEASURE OF INFLATION

Personal Consumption Expenditures (excl. Food and Energy)
(chain-type price index)



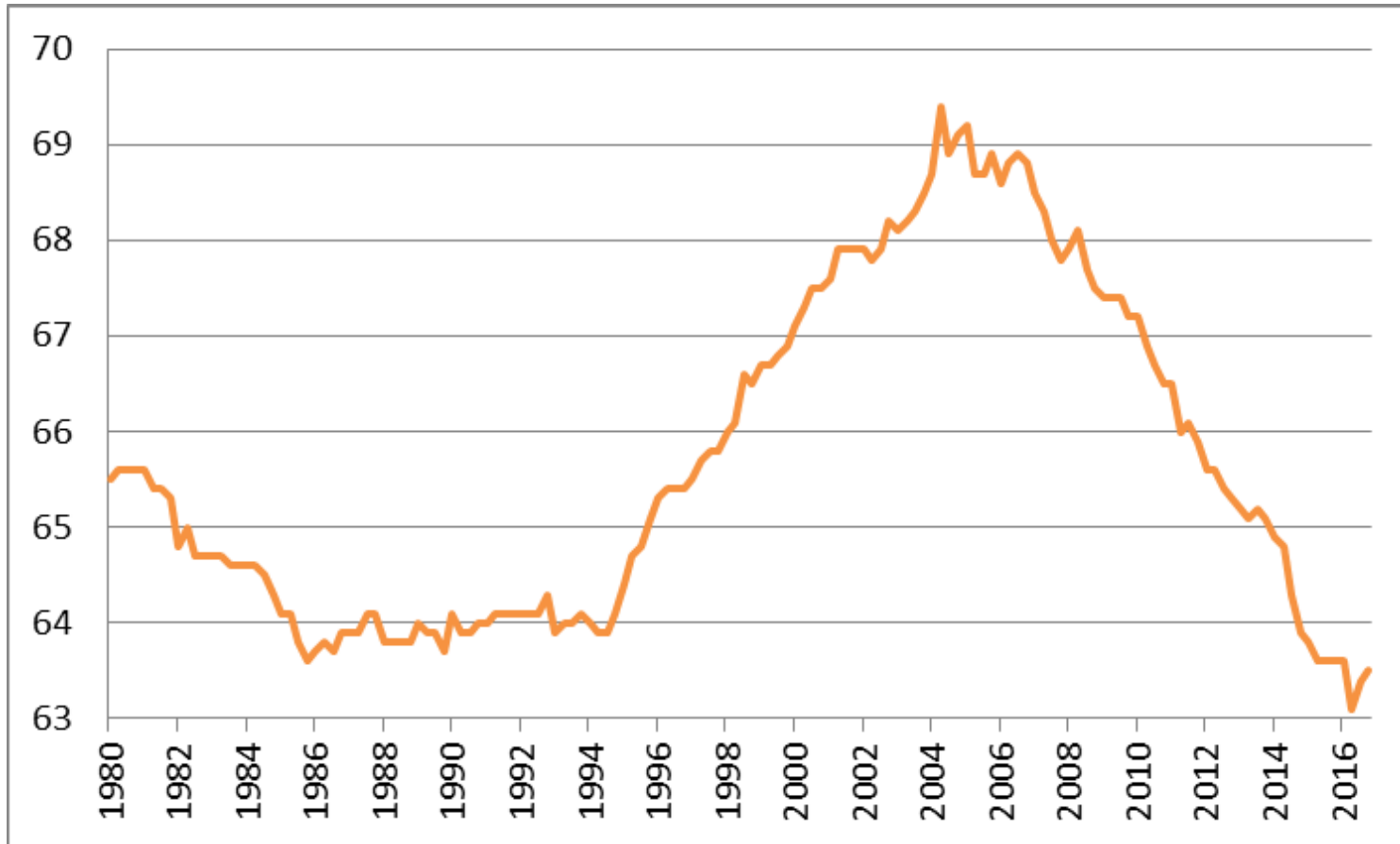
ELEPHANT IN THE ROOM

FEDERAL RESERVE BALANCE SHEET, BILLIONS OF DOLLARS

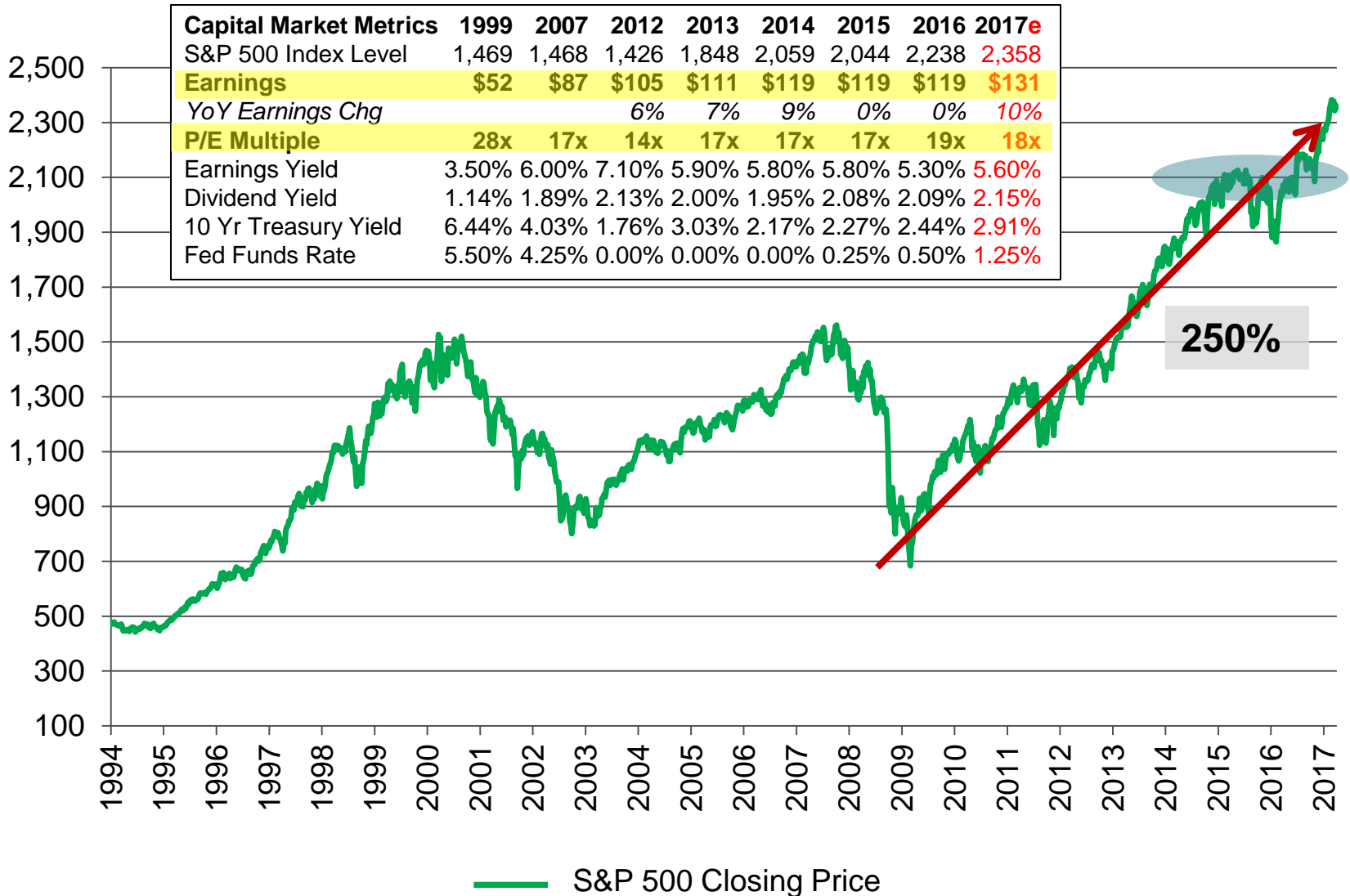


OUT OF THE BASEMENT!

U.S. HOME OWNERSHIP



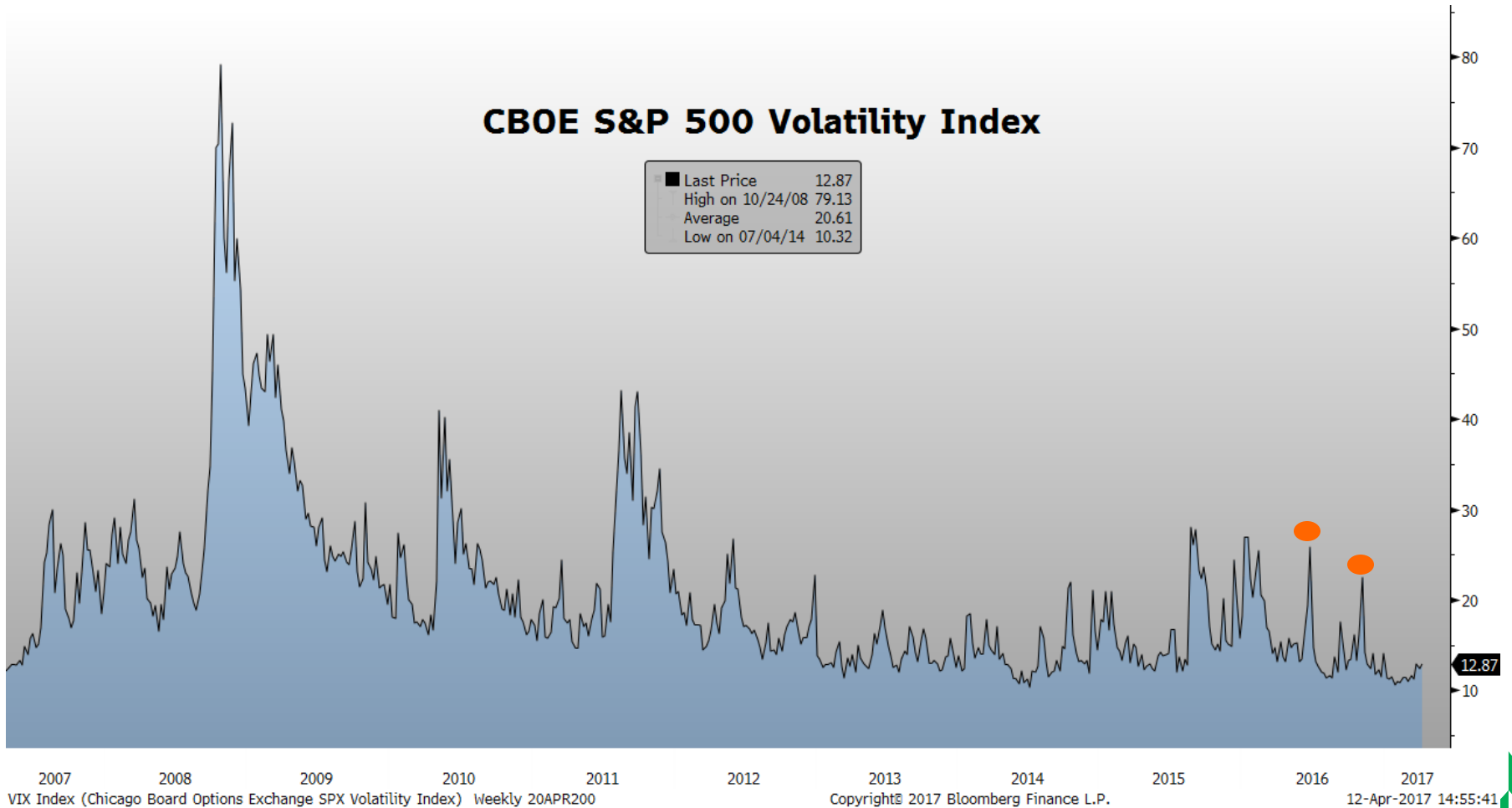
S&P 500 AND CAPITAL MARKET METRICS



Estimate Date: 04/11/2017

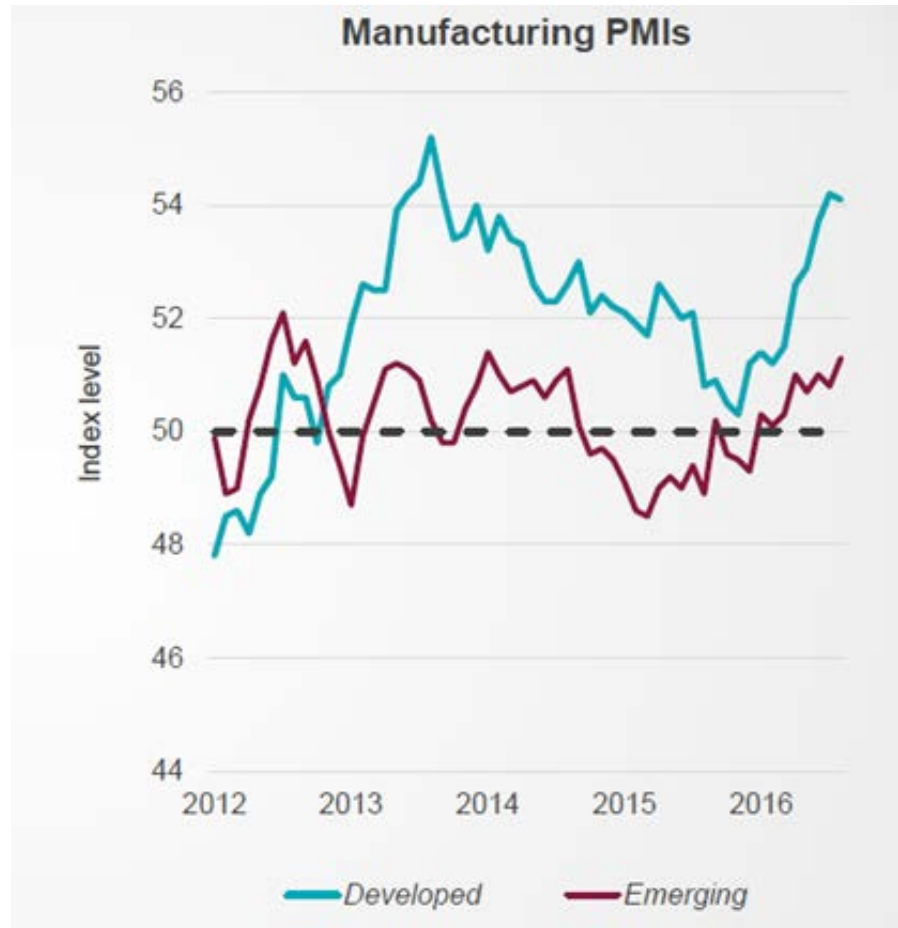
Source: Bloomberg, FactSet

MARKET VOLATILITY



SYNCHRONIZED GLOBAL EXPANSION

US, DEVELOPED AND EMERGING MARKETS ALL SHOWING SIGNS OF GROWTH

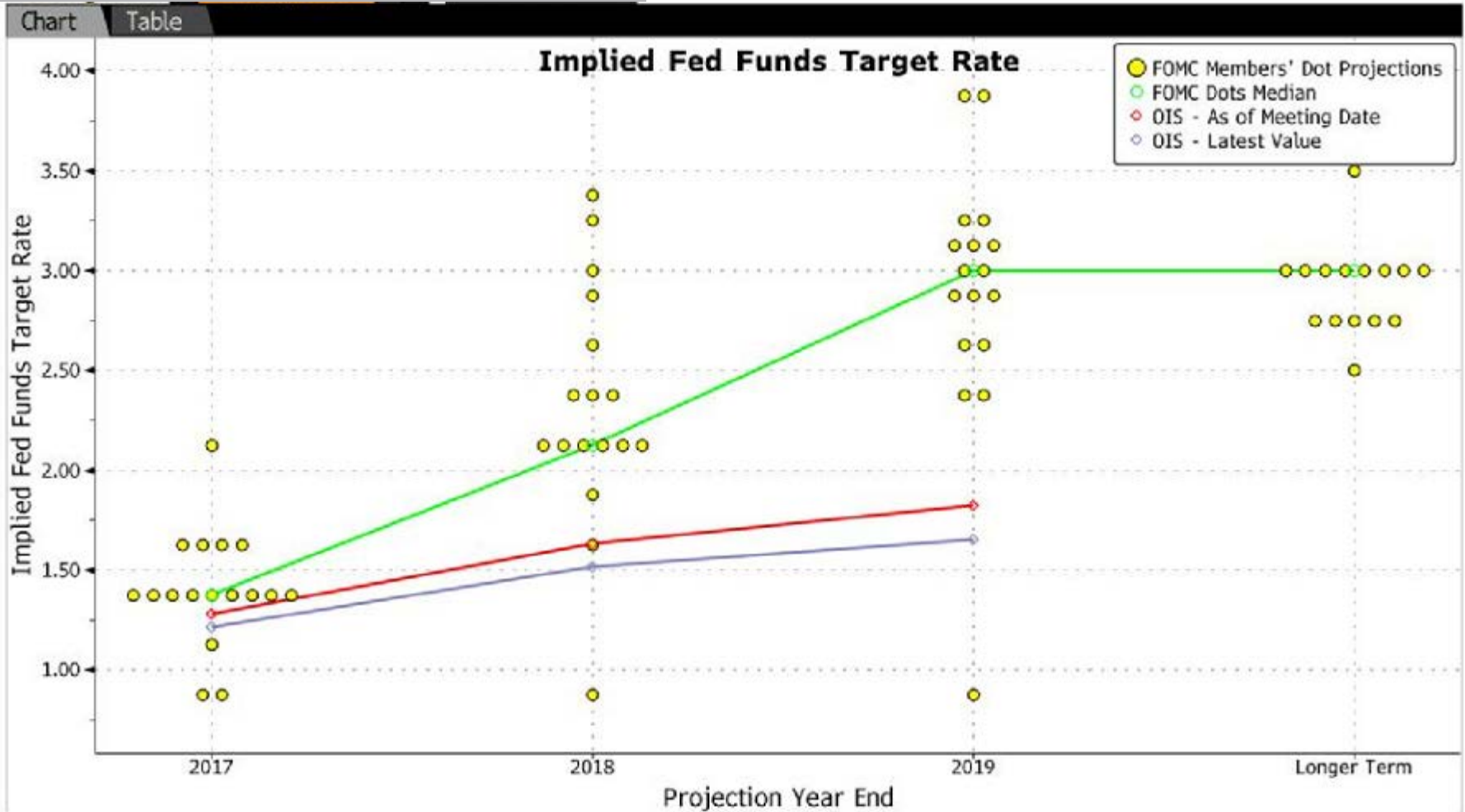


Source: Haver Analytics, Bloomberg, Market Insights

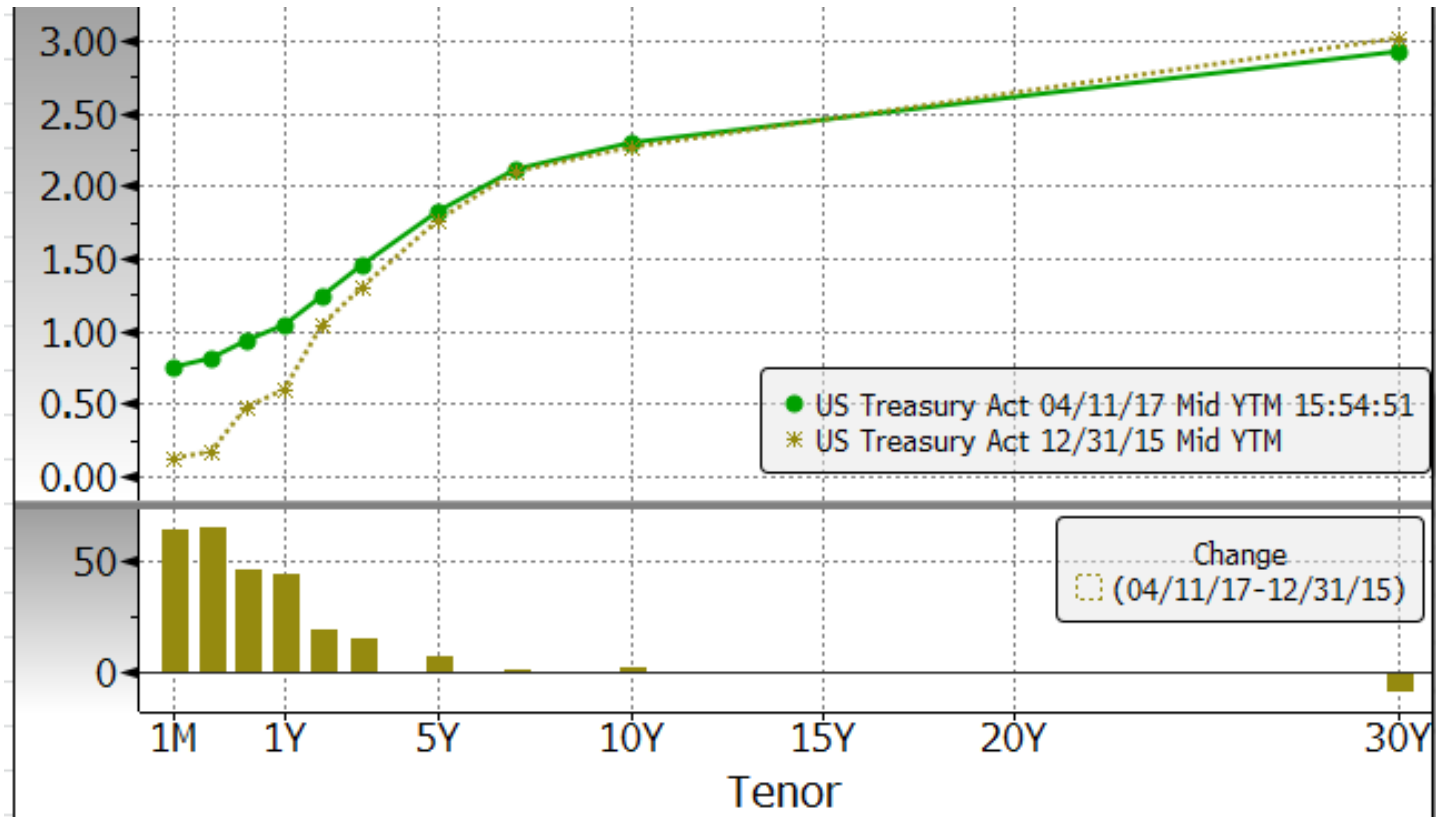


FED DOT PLOT

Meeting Date 03/15/2017



US TREASURY YIELD CURVE



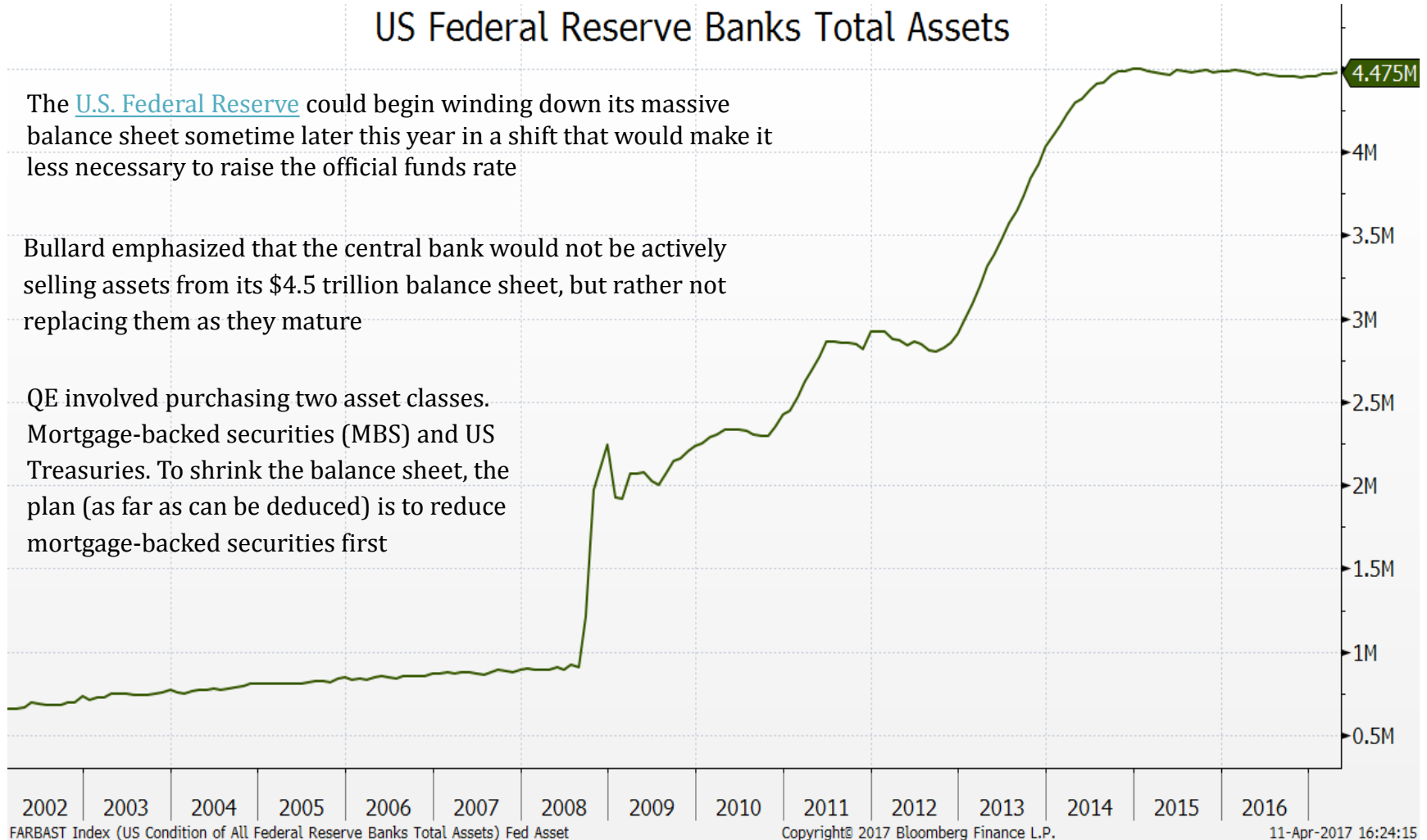
\$4.50 TRILLION IN ASSETS

US Federal Reserve Banks Total Assets

The [U.S. Federal Reserve](#) could begin winding down its massive balance sheet sometime later this year in a shift that would make it less necessary to raise the official funds rate

Bullard emphasized that the central bank would not be actively selling assets from its \$4.5 trillion balance sheet, but rather not replacing them as they mature

QE involved purchasing two asset classes. Mortgage-backed securities (MBS) and US Treasuries. To shrink the balance sheet, the plan (as far as can be deduced) is to reduce mortgage-backed securities first



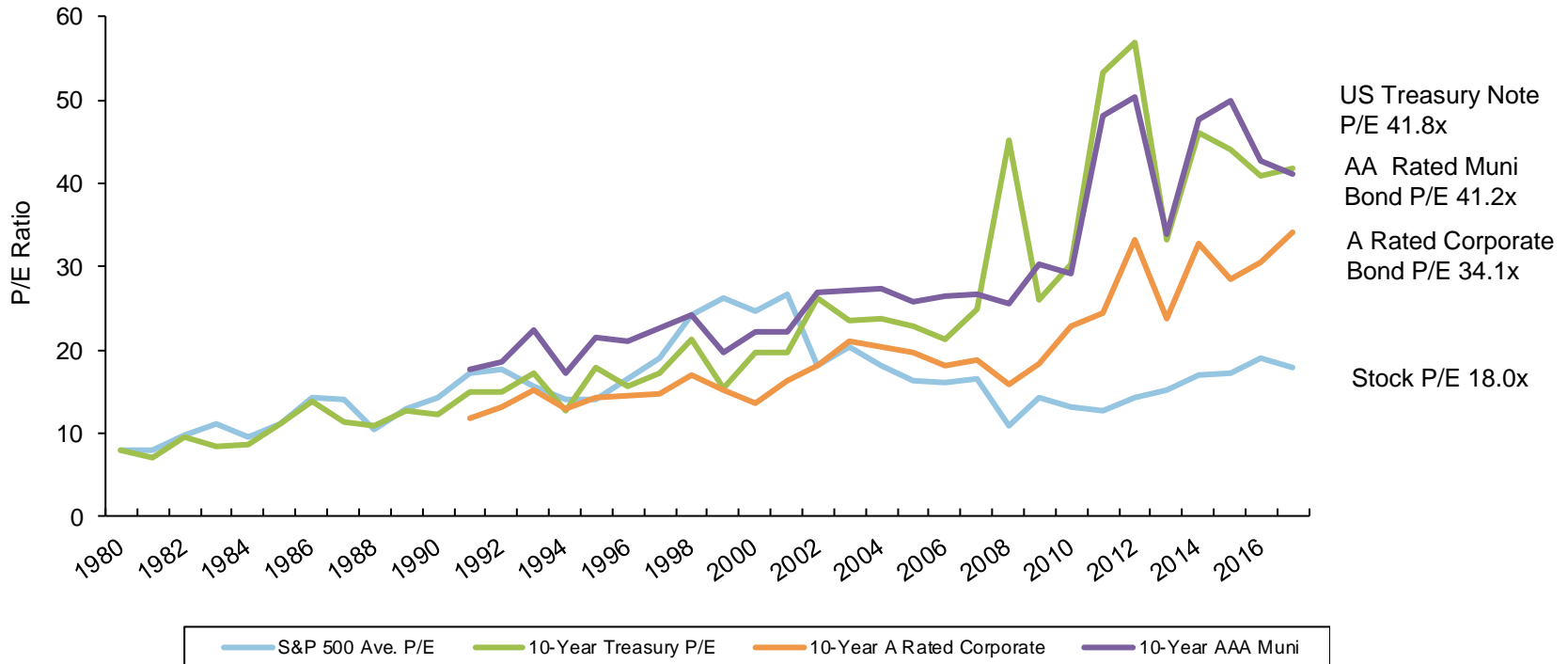
FARBAST Index (US Condition of All Federal Reserve Banks Total Assets) Fed Asset

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BONDS ARE STILL EXPENSIVE



CONCLUDING THOUGHTS

- The domestic stock market valuation appears priced for perfection. It seems likely the economic benefit of the Trump administration's tax reform, regulatory reform and infrastructure spending program may not benefit 2017 earnings. Similar to health care reform, each of these issues is complicated.
- However, the synchronized global economic recovery, which has been absent since 2008, does offer the prospect for meaningful earnings growth for the first time since 2014.
- Expect the Fed to raise the Fed Funds rate **gradually** with minimal impact to the U.S. dollar given the synchronized global recovery.
- So far the Fed's increase in the Fed Funds rate has not resulted in a corresponding increase in longer term bond rates. The absence of an increase in the yield on longer term bonds reflects expectations for a benign inflation environment.
- Stocks are expensive, bonds are expensive and short term liquid investments yield less than the rate of inflation. For the long term investor's portfolio stocks and bonds remain appropriate. However, given the uncertainty of timing and benefit of policy changes as well as domestic stock market valuation, we are reducing domestic stock exposure and increasing foreign stock exposure. The tactical shift is driven by the more attractive valuation of foreign stocks and the prospects for a stable dollar.



THANK YOU



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