The Specter of a Global Economic Recovery
A Third Quarter Review

	Trends	Portfolio & Forecast Implications
U.S. Dollar Comes Back from the Dead	The U.S. dollar has rallied approximately eight percent in 2014 against a basket of major currencies, with much of the currency's gain registered since April. As of this writing, the British pound is at an 11-month low against the greenback, while the euro is at a 2-year low.	The dollar's rally could continue. While Europe and Japan continue to slump, U.S. economic growth has been picking up recently. Moreover, the Federal Reserve is getting ready to raise interest rates next year while the European Central Bank is looking to bolster growth.
The Ghost of Wage Inflation	Investors eagerly await minutes from the Federal Reserve's September 17th meeting hoping for answers to when and at what pace interest rates will rise. For now, the doves continue to dominate the policy discussion, arguing that monetary accommodation cannot be withdrawn until the U.S. economy acquires more stable footing.	The key variable to watch over the next year may very well be wage inflation. For years, the Federal Reserve has felt free to stimulate the economy because of a general lack of inflationary pressure. But trucking companies, healthcare providers, manufacturers, construction firms and many others are now complaining that they can't locate skilled workers, which is likely to translate into faster wage growth. That may prompt the Federal Reserve to raise interest rates quickly when the tightening cycle begins in 2015.
The Washington Gridlock Massacre	The nation faces many issues – ISIS, infrastructure spending gaps, explosive entitlement spending, a broken immigration system, corporate tax inversions and a national debt approaching $18 trillion.	The mid-term elections may set the stage for even more profound gridlock in Washington, D.C. Dysfunction in the nation's capital will continue to subtract from economic growth next year.
Global Economy a Trick, U.S. Economy More of a Treat in Most Recent IMF Forecast	On Tuesday, October 7th, the International Monetary Fund (IMF) dropped its global growth forecast for 2014 from 3.7 percent to 3.3 percent. Forecasts for Brazil, Russia and Japan were each downgraded significantly. The forecast for America, however, was revised upward from 1.7 percent to 2.2 percent GDP growth in 2014.	Expect global investors to continue to park their money disproportionately in America. While much of the balance of the world is struggling to retain even a modicum of momentum, the U.S. economy is positioned for its most rapid rates of growth since the Great Recession began in December 2007 despite the federal spending drag.
Germany's Growth Forecast Spooks Europe	Recently, IMF slashed 0.5 percentage points from its 2014 growth forecast for Germany. The expectations downgrade follows the 0.2 percent decline in German output during the second quarter. Between July and August, German industrial production plummeted to the tune of 4 percent, the worst monthly decline since 2009.	Germany was the lone nation in the Eurozone to weather the financial crisis. The pervasive weakness of the surrounding economies has finally caught up to Germany, the heart of the Eurozone economy. For their part, the French recently cut their growth forecast for 2014 in half. Europe is in trouble and seems to be backsliding into recession. In fact, Italy is already in recession.

Authored by the Freedom Capital Management Strategies® Investment Committee

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Chinese Economy a Shadow of its Former Self	Gone are the years of double-digit growth. This year, the Chinese economy will expand by less than 8 percent. Momentum has been waning of late, with industrial production falling 2.1 percent in August. The World Bank recently cut its forecast for Chinese economic growth by 0.2 percentage points for 2014 and by 0.3 percentage points for 2015. Inflation has also been less than anticipated, indicating that demand within China is not expanding as expected. Part of this is attributable to spotty real estate market performance.	As the world's second largest economy, China is no longer simply a source of affordable exports – it is a major importer in its own right. With China's economy softening, the entire Pacific Rim, including Japan and Australia, has been impacted economically. This lends further credibility to the view that investors will continue to clamor for U.S. dollar-denominated assets going forward, both to expose themselves to growth and also to protect themselves from growing indications of weakness in Europe and Asia. The situation in Hong Kong has also unnerved many would-be Chinese investors.
Oil Prices don't Scare Me	Oil and gasoline prices have been falling in North America. Supply has been growing (at the highest level since November 2012) and demand has been constrained. The International Energy Agency's (IEA) most recent forecasts of demand indicate softening. The IEA forecasts that demand for oil will increase by only 0.9 million barrels per day in 2014 worldwide or less than 1 percent.	This is remarkable -- a radical group of extremists is spreading death and destruction in Iraq and Syria and knocking on the Turkish border – despite that, oil prices are at their lowest level in two years. There are now parts of the U.S. enjoying gasoline prices below $3/gallon. The recent decline in gasoline prices has boosted consumer spending power by roughly $60 billion, which will add to gross domestic product. Perhaps most promising, the share of crude oil that is consumed in America and imported has fallen from roughly 50 percent to just above 20 percent according to the U.S. Energy Information Administration.
Gold 6 feet under	Gold prices reached their lowest level in the past four-years in early October, a response to still low inflation and the belief among market participants that higher interest rates are coming, which increases the opportunity cost of holding gold.	It's been a long time since gold prices have enjoyed a sustained rise. That said, the best time to buy gold is often when the market is complacent and places too little probability on the occurrence of various threats.
The Sandman is Probably Long Equities, too	The S&P price earnings ratio stands near historic norms. Corporate profits continue to expand and dividend yielding companies remain popular with many investors at a time when interest rates remain incredibly low.	The yield on the 10-year Treasury recently fell back below 2.4 percent. Given the low yield on bonds and the lackluster performance of much of the global economy, U.S. equities remain among the most attractive options.

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