

Welcome to  
the fall edition  
of the FLD  
Connection

# Economic Commentary



## What's Happening Now

by James Pafundi

To say a lot has been going on in the past few weeks is a rather mild interpretation of reality. Here is a brief snapshot of our thinking; I hope you like the new format. I thought we needed to cover some ground this quarter.

**The Fed:** Fulfilling the expectations of no rate hike in September, the stage has been set for more conversation about how the Fed will unwind its \$4.5 trillion balance sheet. We expect the process to move very slowly over decades as the bonds mature. We do not believe the Fed will cause a “crisis” in the bond market, although losing the Fed as a buyer may decrease total liquidity. (No change from last month).

**The Economy:** Economic data continues to be good, but not amazing. The good news is the stock market can grind higher on good date. The bad news is that growth can feel very uncomfortable. We don't expect too much change in this outlook for a while, but the unknowns associated with an artificial interest rate environment could change that quickly.

**China:** The renminbi has surged in value in recent weeks, helped by growing confidence in the country's economic prospects and by a political push for stability. Beijing set the currency's value at its strongest level in nearly a year and a half. China still faces hefty debt and slowing growth, but even some vocal naysayers say the country has found ways to contain its problems — at least for now.

**North Korea:** As expected, the tension in North Korea has diminished a bit. A solution will not be a fast process and will likely involve many countries that are not accustomed to working together. We expect

this story to move to the 5th page of the newspaper and only make its way to front page when flare-ups happen.

**Brexit:** Amid the ongoing Brexit negotiations, EU economic growth is outpacing that of the UK. However, the economic headwinds facing the continent are hardly less severe than those across the English Channel. While Germany is facing increasing competition from the US in the exports segment, and the disruptions in the traditional economic ties between the UK and the continent are affecting EU growth, the EU is becoming increasingly reliant on the economic expansion in its eastern regions.

### The month ahead:

More commentary will be released around the unwinding of the Fed's balance sheet. This topic should dominate economic headlines for most of the month even though nothing is really expected to happen in 2017. Markets seem to have priced that view in already, so we don't expect much volatility unless an unexpected announcement happens.

### The bottom line:

We continue to see stable and healthy economic data. At this time we have no economic data that supports a recession in the next 6 to 12 months.

### Sources:

*Bloomberg, Reuters, Federal Reserve, WSJ*

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After the sweltering summer we had, it has been nice to see the colors change on the trees as the seasons shift. The leaves are not falling as fast as we head into December, but temperatures are dropping and we're ready to bundle up and spend time with our friends and families in the coming months.

We hope you have a wonderful holiday season and look forward to seeing you in 2018.

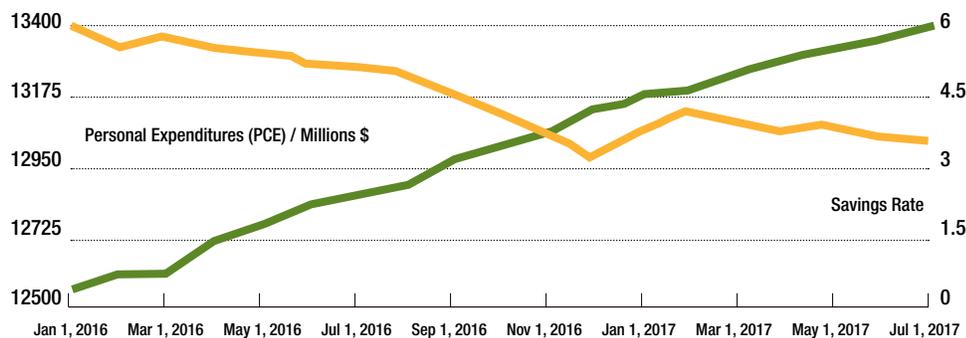


## Consumers Are Spending More & Saving Less – Consumer Behavior

Recent government data reveals that Americans have been supporting their spending with their savings. The increase in spending is also recognized by economists as a sign of optimism and consumer confidence. Commerce Department data show that consumers have been spending more, as measured by the Personal Consumption Expenditures (PCE), and saving less, as measured by the savings rate, which fell to a ten-year low of 3.1% in September.

Integral components of consumer expenditures include income, credit and savings, basically where we get the money we spend. Every month, the Bureau of Labor Statistics tracks various data such as how much we spend, reported as Personal Consumption Expenditures (PCE), and how much we save, represented by the savings rate.

### PCE/SAVINGS RATES



For many Americans that save diligently, using credit to spend is usually a last resort. So, for those consumers, spending from savings occurs before tapping a credit card. The most recent data show that consumers, as measured by the PCE, have been spending more over the past year. The concern is that consumers are concurrently saving less, meaning that savings are starting to go towards expenditures. Economists view this dynamic as a possible rise in prices and inflationary pressures where current income may not be keeping up with rising inflation.

Continued job and wealth gains have inspired consumers to spend more confidently. Another notable data set, tracked by the Federal Reserve, is household net worth, which revealed an increase in its most recent release, adding to consumer confidence.

**Sources:**  
BLS, Federal Reserve Bank of St. Louis

*The economic forecasts set forth in the presentation may not develop as predicted.*

## Shift In Bond Yields - Fixed Income Markets

by James Pafundi

The yield curve for U.S. government bonds is flattening while shorter-term rates have risen as Fed hike expectations have increased. The 2-year Treasury reached 1.60% in October, its highest level since 2008. Rising shorter-term maturity bonds with little or no change in longer-term maturities is viewed by economists as a pick up in shorter-term inflation as well as the expectation of a coming rate increase by the Federal Reserve.

The 10-year U.S. Treasury is becoming more of an attractive option for international investors as the yield on the benchmark bond has risen versus its developed market peers. The yield on the 10-year Treasury at the end of October was 2.38%, compared to a 0.04% yield on the Japanese 10-year government bond, 0.36% on Germany's and 1.26% on the British 10-year government bond.

Higher interest rates are anticipated in Europe as the European Central Bank (ECB) announced that it plans to reduce its purchases of government and corporate bonds by half starting in January 2018. The ECB had been buying a committed 60 billion euros of bonds every month since it began monetary easing. Many believe that the actions of the European Central Bank (ECB) may influence the U.S. bond markets to higher interest rate levels.

Municipal markets have been closely monitoring the financial effects of the hurricane in Puerto Rico and the wildfires in California. Loss of sustainable tax revenue in both locations is concerning to municipal markets. Both California and Puerto Rico have debt in the municipal market, stirring concern among national muni investors. Credit reporting agencies may also alter the demand for

the bonds as any downgrades may be consequential for the state of California and the territory of Puerto Rico to borrow additional funds.

**Sources:** Bloomberg, Federal Reserve

*The economic forecasts set forth in the presentation may not develop as predicted.*

*Municipal bonds are subject to availability and change in price. They are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise. Interest income may be subject to the alternative minimum tax. Municipal bonds are federally tax-free but other state and local taxes may apply. If sold prior to maturity, capital gains tax could apply.*

## Book Corner

by James Pafundi

### *“Algorithms to Live By”*

by Brian Christian and Tom Griffiths

I'm sure you've heard of the word "algorithm," but you may have wondered what that term means exactly. You may have heard that the word is used to describe how a computer works, or how Google knows to advertise that "incredible cruise offer" after you just searched for something related to your next vacation. Algorithms, however, have been around long before the invention of the computer.

The word actually dates back to the 9th century, when it was first used by the Persian mathematician Muhammad al Khwarizmi, but the use of algorithms can be traced back to Sumerian times. Algorithms are simply a series of steps that solve a problem - a technique you use every day. In fact, we like to include a food based algorithm in this newsletter... Gina's butternut squash soup for this issue.

Of course, human algorithms are not as precise as ones computers use. How do you know when to stop searching for that perfect holiday gift? That's called an "optimal stopping" algorithm. In this case, the magic number is 37. After

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# What's Cooking

by Gina Pafundi

James loves soup and I am always trying to out-soup him. This may sound corny, but I always wait for him to take his first bite to see the expression on his face. He absolutely loved this soup and ate it for days!

Butternut squash can be difficult to cut, so don't be afraid to buy the pre-chopped bags. Most grocery stores offer this. What really made this one-pot meal exciting were all the yummy garnishes. It's a perfect dish for cold weather. Enjoy!



## Butternut Squash Soup

with delicious garnishes!

### Directions:

Pre-heat oven to 350 degrees. Cut up your vegetables into bite sized chunks. In a bowl, toss veggies with olive oil, salt, and pepper. Spread evenly on a cookie sheet and roast in oven for approximately 30-40 minutes.

Defrost shrimp if needed. In a bowl, add salt, pepper, and olive oil to coat the shrimp and set aside. Drain and rinse garbanzo beans and set aside. Chop cilantro. While soup is simmering, grill shrimp, then chop into chunks and set aside.

### Soup

Heat 2-3 tbsp of olive oil in a stock pot. Sauté onion, celery, carrots, and garlic until tender (about 5 minutes). Add butternut squash and sauté for approximately 5 minutes. Add salt and pepper to taste.

Add chicken broth and let squash simmer for 20-30 minutes, until squash is soft. Once squash is soft, use an immersion blender to puree. Add coconut milk or cream, curry powder, and simmer for 10-15 minutes. Serve and top with DELICIOUS GARNISHES! Enjoy.



### Soup Ingredients

- 2-3 tbsp of olive oil
- 2-3 pounds of butternut squash, chopped in cubes
- 3 ribs of celery, chopped
- 3 carrots, chopped
- 1 large white onion or two medium sized
- 6-8 cloves of chopped garlic
- 2-3 boxes of chicken broth
- 1 can of coconut milk or 1 ½ cups of heavy cream
- 1-2 tsp of curry powder

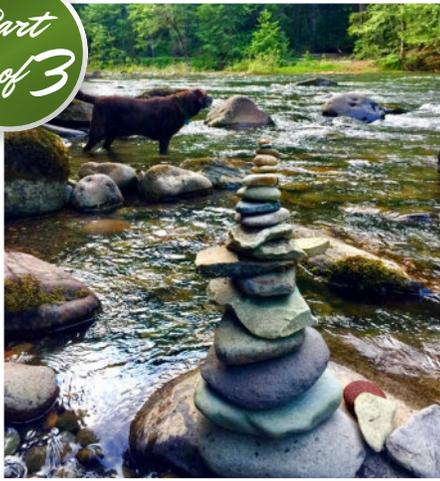
### Delicious Garnishes

- 1 pound bag of shrimp
- 1 can of garbanzo beans, drained and rinsed
- Grilled vegetable: butternut squash cubes, mushrooms (I used shitakes), zucchini, red onions
- 1 bunch cilantro, chopped
- Parmesan cheese

# Travel & Adventure / for the Mind, Body, & Soul

by Ellen Grant

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Up until recently, the most complicated yoga maneuver I'd ever done was stretching over my sleeping cat to get to the TV remote without disturbing him. While that did lead to me contorting myself into some impossible positions, I don't think it quite qualified as yoga, so I was about as green as you could get when I took my first class.

I'd thought about taking a class a time or two, but in the sort of non-committal way that people talk about swimming with sharks or hiking Everest: it'd be a neat experience, and maybe one day, but just not right now.

Then Gina Pafundi came into my life.

Well, more accurately, I came into hers, and I'm grateful for that fact for more reasons than just not having to work weekends. Yoga is only one of the many good things she and James have broadened my horizons into trying (thanks for introducing me to sushi!) but it's definitely a keeper.

I was skeptical when I took my first class. When I thought about the types of exercise I was capable of and willing to do, yoga was never high on the list. On top of that, the idea of actually being able to empty my crowded head and just exist in the moment was so foreign to me that I almost gave up before I started. After actually participating in a class, though, I can tell you that while yoga may not be for everyone, I found the yoga that seems to work for me.

More seasoned yoga goers will be able to expound a little more on it, but there are many different disciplines and many different ways to shape your own individual yoga experience. So far, I've found that the structure of Yin yoga works best for me, where I can hold a pose and focus on my breathing. I was amazed by how calm and centered I felt after only my first class!

If you're thinking about giving yoga a try, the only thing you really have to lose is a little bit of time. I can't believe I spent so long convincing myself that I couldn't do yoga, only to find out that I actually

can and that I enjoy it! I may not ever become as proficient a yogi as Gina is, but I've found the yoga that fits me, and I'm looking forward to my own journey with yoga as it unfolds.

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looking at the first 37% of your options, you should take the fist option that meets your needs. It may not be the best, but the odds of making a good choice are much better than a random selection's would be.

Algorithms are not incomprehensible things that only exist to help Google, mathematicians, and financial advisors. We use them every day, even if we are unaware of it. Algorithms contain a lot of problem-solving wisdom that can help us all make better decisions, predict probable outcomes, and become a more productive individual.



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