GBA Financial

Monthly Newsletter

January 2017

COMMENTARY

2016 is so over - bring it on, 2017! To be prepared for what's to come this year, we should take a quick look at 2016. Stocks started off rough in January and February, but the February low of 1810.10 on the S&P 500 marked the low for the year. After recovering into April, we saw the market trade sideways for much of the year until the most recent rally, which was triggered by

the United States presidential election. We close the year hovering around the highs for the year and all time. We had a target of 2250 on the S&P for year-end and it looks like we may be just a little off as the S&P finished the year at 2,238. International markets had a similar start to the year but after recovery, internationally-developed markets traded sideways in a range. The unknowns of Brexit and its effects for the European Union are currently giving investors pause on investing in this area. Emerging markets stocks were one of the stronger areas, but a strengthening dollar in the fourth quarter has caused a major headwind for them. Speaking of the US Dollar index (chart), it looks to have broken out of the trading range it has been stuck in for the better part of two years. Our analysis at the end of 2015 was predicting a breakout to the upside for the USD index, and although it did happen, we were expecting it a little sooner in the year. 2016 was a tale of two halves for the fixed income market. Long duration fixed income portfolios benefited greatly in the first half as the 10 year treasury yield traded lower, reaching as low as 1.34% in July. The second half was beneficial for short duration fixed income portfolios as the 10 year went from the lows in July to almost doubling and currently sitting just under 2.60%.

December had plenty of news events to finish up the year. Italians voted against a referendum for constitutional changes which triggered another Prime Minister to resign. The Organization of the Petroleum Exporting Countries (OPEC) agreed to its first oil cuts in eight years, European Central Bank announced an extension of its bond-buying program, and all of this is burying the lead story for December that the Federal Open Market Committee (FOMC) increased rates for the first time this year and only the second time in eleven years. At the start of the year we were looking for a more aggressive approach from the Fed with the outlook of two-to-four increase over 2016. While we didn't get that correct, we were also saying that there were going to be better economic conditions as the year went along and November reads (reported in December) were another great example. The unemployment rate fell to 4.6%, third-quarter GDP came in better than early estimates at 3.5%, and consumer confidence reported the highest reading since August 2001 at 113.7.

(cont. on reverse)

ECONOMIC HIGHLIGHTS

S&P 500	2,238.83
DJIA	19,762.60
NASDAQ	5,383.12
Oil	$53.72/barrel
Gold	$1,151.70/ounce
10 Year Treasury Yield	2.45%
Unemployment	4.6%
GDP	3.5%
Consumer Price Index (CPI)	+0.2% 12 month change: +1.7%
Core CPI	+0.2% 12 month change: +2.1%

☺ **GDP** - Third quarter beat consensus estimates and finished at 3.5% annualized. Best results in a in over a year.

😐 **FOMC** - The FOMC increase the Feds Funds rate for the first time this year. A good sign that the Fed sees the economy heading in the right direction, but higher interest rates (although still historically low) could effect consumer and business loans

☹ **Europe** - Brexit hangs over investors heads and with the Italians voting "no" regarding constitutional changes its another sign that a populist movement is in motion. There are a handful more election in Europe in 2017 and all could become market movers.

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(cont.)

2017 Outlook

Like 2016, 2017 should have plenty of headline news stories. The FOMC will be front and center again with their latest projections on Federal rate hikes coming in at three. We believe that we'll see only two rate hikes in 2017 as the Fed has been very cautious not to stop this economic recovery. We are remaining bullish on domestic equities and see a rotation into small and mid-cap stocks that will lead stocks higher as investors have more risk appetite. Although we see small caps and mid caps leading in 2017, we do believe large caps will still perform well. Our year-end price target for the S&P 500 is 2520. Economic conditions domestically have continued to improve and should persist into 2017. The US consumer has been the driving force of the economic growth and US households continue to improve, which should bode well for further economic expansion. We are looking to see if and when businesses will start to feel more comfortable in investing (in the form of capital expenditures). That would be a great signal to investors. There are several potential market-moving events in Europe next year, with the biggest being the United Kingdom (UK) possibly triggering Article 50 (the process by which member states may withdraw from the European Union). The number of unknowns in Europe has us hesitating to go "risk-on," but we are monitoring the situation closely with the plan to be aggressive at the opportune time. Emerging markets will be dealing with a strengthening US Dollar headwind and the possibilities of international trade negotiations by President-elect Trump. A bigger policy issue we will be interested in seeing from President-elect Trump is the possibility of changes to things like infrastructure spending and/or tax reforms. We think that a switch from monetary policy stimuli to fiscal stimuli is a great transition for the economy. More details are needed to see what kind of infrastructure spending there is going to be, but we feel there will be an emphasis on the communication angle and internet infrastructure. Going back to the US Dollar, it has broken out technically from a two-year trading range. We expect the dollar to strengthen for much of 2017 and have a price target of $108 on the index. In Fixed Income, we believe a low duration portfolio is still the best position as we see the 10-year Treasury note yields have put in a major bottom in 2016. We are optimistic that crude oil will see higher prices in 2017, targeting $65/barrel by year-end. As for gold, we remain long-term bears and if $1,000/ounce breaks to the downside, we could see $850/ounce.

Economic Highlights

Index	3 Mo	1 Yr	3 Yr	5 Yr
S&P 500	3.82	11.96	8.87	14.66
MSCI EAFE	-0.68	1.51	-1.15	7.02
BarCap Agg Bond	-2.98	2.65	3.03	2.23

Data as of 12/31/2016. Investments cannot be made directly into an index.

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