Ice skates or an umbrella?

Forecasting the future is difficult work – just ask a meteorologist. Sometimes the news is taken over by predictions of a major ice storm about to wreak havoc. In no time at all, grocery store shelves are ransacked, lines form at gas stations and schools are preemptively closed. Then in actuality, Mother Nature delivers nothing but some light rain and extra schooldays to make up later in the year.

To be clear, predicting the future is not something we aim to do. We do, however, pay close attention to the various intricacies of markets and form an outlook regarding how we believe things could play out in the near term. This outlook drives our asset-allocation decisions, which is how we recommend client portfolios be invested among the various asset classes.

Our outlook for the rest of 2017 still ties in with the handful of allocation changes we made in early December, and we continue to keep an eye on what we see as the potential risks out there for markets and the global economy.

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Perspectives in a flash.

We’ve taken our perspectives on the markets, economy and political events and summarized what you need to know.

**Market perspectives.**

**Dissecting the “Trump Trade”:** Following the presidential election, small-cap U.S. stocks and financials got a huge boost while on the flip side, we saw a spike in bond yields. Then in January, the market moved into wait-and-see mode. Although there’s a risk of U.S. investors having “priced in perfection,” we still think small-cap stocks have room to improve.

**Earnings uptick:** Corporate earnings have rebounded, although if multi-national corporations cite the strength of the U.S. dollar as a potential headwind down the road, that could weigh down earnings in 2017.

**Shifting regimes:** The move into a low-and-rising inflation environment could be upon us, which historically has been better for equities and commodities than for bonds and cash. However, an overly aggressive Federal Reserve is a potential risk to both equity and fixed-income markets this year.

**Economic perspectives.**

**Solid backdrop:** The global economy appeared to be in solid shape at the end of 2016 when looking at business and investor sentiment, economic surprise indicators for the United States, emerging markets and the eurozone, and major global PMI levels.

**Getting fiscal:** The prevailing hope in the United States is that accommodative fiscal policy will drive growth better than monetary policy has, and investors will be looking for reduced regulations, increased infrastructure spending and tax reform to support higher economic growth.

**Political perspectives.**

**Looking back:** Republicans control the White House, House and Senate following one of the most corrosive and divisive campaigns in history; President Trump’s transition got off to a rocky start but was smoothed over pretty quickly by Vice President Mike Pence and Senior Advisor/Son-in-law Jared Kushner.

**Looking ahead:** The first 200 days of Trump’s presidency will focus on four major policies: ACA Repeal and Replace, Tax Reform, Regulatory Reform and Infrastructure (although Infrastructure may get pushed to the back seat).

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Putting it all together

While the risks of navigating a changing political landscape and a challenging interest-rate environment are front and center, at the very least, we entered 2017 in a significantly better space than we did 2016. To sum up where we were at then vs. now, the table below compares a number of important metrics that have improved over the last 12 months.

<table>
<thead>
<tr>
<th>Then</th>
<th>Now</th>
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<tbody>
<tr>
<td>Corporate Earnings</td>
<td>Corporate earnings in the United States were in the midst of a recession, posting a year-over-year decline of -3.3% in the fourth quarter of 2015.</td>
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<tr>
<td>Global PMIs</td>
<td>The global composite PMI was teetering right on the 50 level in early 2016, which was close to dipping into contraction territory.</td>
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<tr>
<td>Inflation</td>
<td>Deflationary fears were a major driver of market declines at the beginning of 2016.</td>
</tr>
<tr>
<td>Market Conditions</td>
<td>Equity markets dealt with one of the worst January sell-offs in history, and by Feb. 11, 2016, the S&amp;P 500 was already down -10.5% for the year.</td>
</tr>
</tbody>
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Last year was certainly not without its surprises, with the results of the June Brexit referendum and the November U.S. presidential election turning out the opposite of what was commonly anticipated. With the global geopolitical backdrop – which includes both geographic and political factors – being what it is today, we’re sure 2017 will throw some curveballs our way too.

We largely agree with Ian Bremmer of the Eurasia Group, a firm that advises institutional investors on political risk, in the assessment that 2017 may be the “most volatile” year for political risk since World War II. This is particularly true for Europe, which has elections in Germany, France and the Netherlands plus Britain’s planned exit from the European Union. A lot of unknowns with President Trump and his potential policy changes remain as well.

The bottom line, however, is that the U.S. and global economies could continue to expand – even if at a somewhat slow pace – and the stock market is in a bull market until proven otherwise.

In short, 2017 looks to be a good year for the economy and markets, but it will not be without the potential for risk and bouts of volatility, and yes, some surprises may be in store. Not surprisingly, however, our team of research analysts studies economic, political and market trends to be proactive, not reactive, when investing our clients’ hard-earned money. And that will help us to help you handle the curveballs that may lie ahead.

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