Around the World in 60 Minutes

Presented by Dr. Dave Yeske, CFP®
“Pundits forecast not because they know, but because they are asked.”

John Kenneth Galbraith
Why travel the world?
What is there to learn?

- **Outside the U.S.**
  - Political and economic developments that will impact your portfolio.

- **Within the U.S.**
  - Political and economic developments that will impact your portfolio.
  - Political developments that will impact your income taxes, estate plans, Social Security, Medicare, and other benefits.
Half the market is outside the US
Shifting Shares

Emerging Markets

International Developed

Domestic
Two Trillion Dollar Connections

U.S. International Trade in Goods and Services
(Billions of Dollars, Seasonally Adjusted)

- Imports
- Balance
- Exports

February 2017 Trade Balance
-$43.6 Billion

Source: US Census Bureau
Global ("real") Diversification

Home Market Index Portfolio
S&P 500 Index
1 country, 500 stocks

Global Market Index Portfolio
MSCI All Country World Index
46 countries, 8,628 stocks
Territory to be covered

- Political developments around the world
- Economic developments around the world
- What to watch for
- Managing change and uncertainty (Building Resilience)
Political Developments in Europe

- Netherlands
  - Mark Rutte is up and Geert Wilders down.
- France
  - Whither Marine Le Pen and Emmanuel Macron?
- Germany
  - Angela Merkel fighting on two fronts: Alternative for Germany party (AfD) and Social Democrats.
- United Kingdom
  - Theresa May invokes Article 50 and calls elections.
Political Developments in Asia

- China
  - Will hold its 19th party congress in Oct/Nov. Xi Jinping will concentrate more power. Near-term economic boost on tap?

- South Korea
  - Snap presidential election on May 9.
  - More saber rattling from North Korea.
What to watch for

- If pro-European Union candidates prevail, it will be positive for stability and continued growth in the Eurozone.
- Even if anti-EU candidates prevail, a breakup of the union is far from a sure thing, but markets will, at least in the short-run, be roiled.
- Expected larger majority for the Conservatives likely to have no impact and Brexit negotiations will play out for several years.
European Central Bank (ECB) throttling down QE: reducing bond purchases from €80 billion to €60 billion per month starting in April.

- The Eurozone has produced 14 consecutive quarters of growth, unemployment is back in single digits, economic sentiment highest in 6 years, and inflation hit 2% (*that’s a good thing*).

- Eurozone growth was 1.7% in 2016 vs. 1.6% for the US.

- Eurozone stock markets up more than 5% YTD.
“I’m not dead yet.” ObamaCare survives the first assault while AHCA goes down in flames. Why the status quo will remain for the foreseeable future.

Next up: tax reform. Why this one is even harder than healthcare.

Corporate taxes, individual taxes, or both?

But the Secretary of the Treasury says, “not before the August recess.”

Social Security. The trust fund’s $2.8 trillion will be gone by 2034, after which current benefits drop by 20%.

And a close call in Georgia. Foreshadowing 2018 mid-terms?
## Social Security Proposals

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<tr>
<th></th>
<th>Republican Proposal</th>
<th>Democratic Proposal</th>
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<tbody>
<tr>
<td>Normal Retirement Age</td>
<td>69</td>
<td>67</td>
</tr>
<tr>
<td>Cost-of-Living Adjust.</td>
<td>Chained-CPI</td>
<td>CPI-E</td>
</tr>
<tr>
<td>FICA taxes</td>
<td>Same</td>
<td>Resumes &gt; $400,000</td>
</tr>
<tr>
<td>Taxation of benefits</td>
<td>Eliminated</td>
<td>$32,000 → $100,000 + CPI</td>
</tr>
<tr>
<td>Fully covers shortfall</td>
<td>Yes</td>
<td>No</td>
</tr>
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- **However:** President Trump rejected any changes to Social Security or Medicare in White House budget.
What to watch for

- April 28: budget extension or government shutdown?
- Actions to reduce corporate tax rates would continue to buoy markets.
  Revenue neutral or temporary?
- “Border Adjustment Taxes” or other trade restrictions would hurt.
- Fiscal stimulus: undermined by the Fed?
4th quarter GDP grew at annualized 2.1% and IMF projects 2.3% in 2017 and 2.5% in 2018 (vs 1.6% for all of 2016).
12 month trailing inflation hit 2.7% (this is a good thing).
Fed raised Fed Funds rate 0.25% on March 15, now at 1.00%.
Two more hikes in 2017, three each in 2018, 2019, gets to Fed target of 3.0%.
Fed may start shrinking balance sheet this year, by ceasing reinvestment or selling bonds. Higher rates to follow?
Key Numbers

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Market valuations in the US are on the high side, though interest rates, inflation rates, and earnings growth offer support.

Focus on value stocks, those that trade at low prices relative to earnings (P/E) or assets (P/B).

Focus on non-US markets which are sporting attractive valuations, offering more upside/less downside. But if US Blue Chips tumble, be prepared for a short roller coaster ride.

Federal Reserve moves on Fed Funds and balance sheet will be measured, but rate surprises still possible, so keep bond maturities short.
And don’t forget to breathe . . .
Thank you!

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