



Midterms, Markets, and Money

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LIVE BUIGSM

Midterms, Markets, and Money

- Midterms
 - Gridlock or bipartisan legislation?
- Markets
 - What are stocks telling us?
 - Economic variables to watch.
- Money
 - Staying resilient in the face of change.



Demos take the House

House Election Results: Democrats Take Control

228

Democrats

Gained 33 seats
54,112,904 votes (51.7%)

9

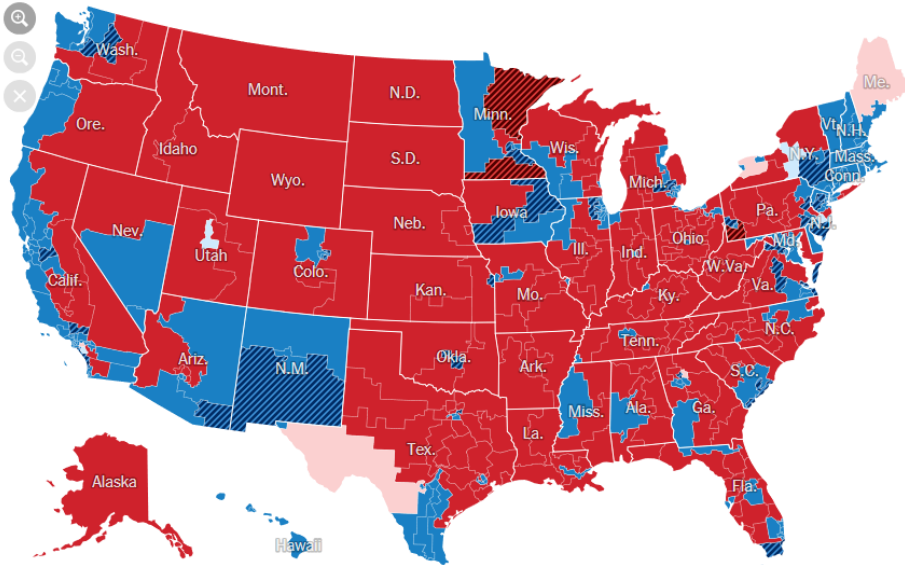
undecided

218
FOR CONTROL

198

Republicans

Lost 33 seats
48,747,608 votes (46.6%)



Map Cartogram

Dem. Lead Win Flip Rep. Lead Win Flip Other Lead Win Flip

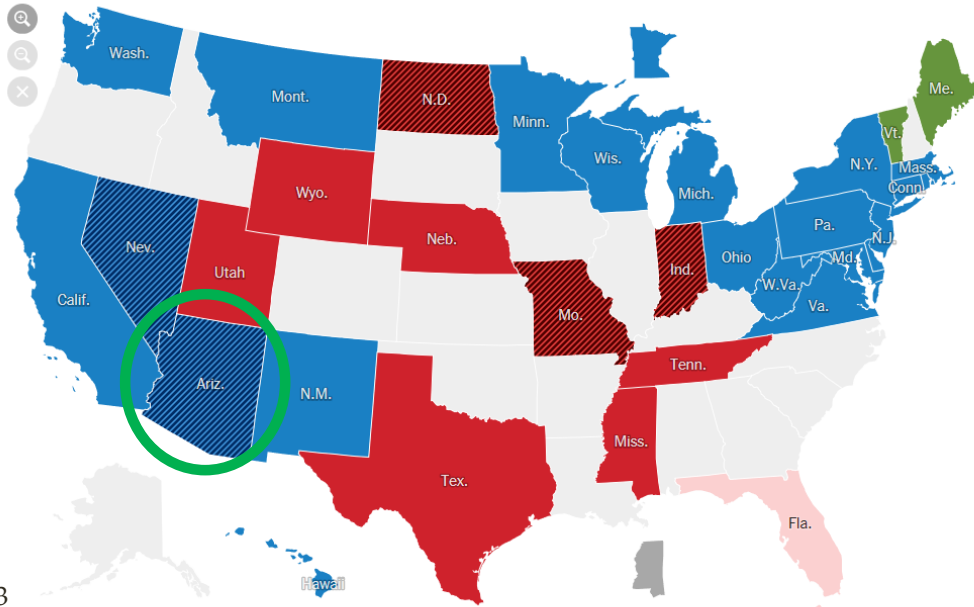
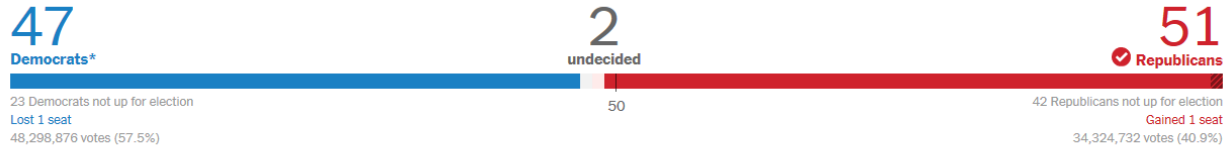
Key Races 80 Total

Dem. favored		Tossup		Rep. favored	
DISTRICT	MARGIN	DISTRICT	MARGIN	DISTRICT	MARGIN
Ariz. 2	✓	Calif. 10	✓	N.Y. 11	✓
Calif. 49	✓	Calif. 25	✓	S.C. 1	✓
Colo. 6	✓	Calif. 48	✓	Minn. 8	✗
Fla. 27	✓	Fla. 26	✓	Pa. 14	✗
Iowa 1	✓	Ga. 6	✓	Alaska	✓
Ill. 6	✓	Iowa 3	✓	Calif. 50	✓
Kan. 3	✓	Ill. 14	✓	Fla. 6	✓
Mich. 11	✓	Mich. 8	✓	Fla. 16	✓
Minn. 2	✓	N.J. 7	✓	Fla. 18	✓
Minn. 3	✓	N.M. 2	✓	Fla. 25	✓
N.J. 2	✓	N.Y. 19	✓	Iowa 4	✓
N.J. 11	✓	Tex. 7	✓	Ill. 12	✓
Pa. 6	✓	Tex. 32	✓	Ill. 13	✓
Pa. 7	✓	Va. 2	✓	Mich. 6	✓
Pa. 17	✓	Va. 7	✓	Mo. 2	✓
Va. 10	✓	Calif. 45	D+0.2	Mont.	✓
Wash. 8	✓	N.J. 3	D+1.1	N.C. 2	✓
Ariz. 1	✓	N.Y. 22	D+0.6	Neb. 2	✓
Nev. 3	✓	Utah 4	D+0.6	N.Y. 24	✓
Nev. 4	✓	Minn. 1	✗	Ohio 1	✓
		Fla. 15	✓	Pa. 16	✓
		Kan. 2	✓	Tex. 22	✓
		Ky. 6	✓	Va. 5	✓
		N.C. 9	✓	Wash. 3	✓
		N.C. 13	✓	Wash. 5	✓



Republicans expand margin in Senate

Senate Election Results: Republicans Keep Majority



Key States 13 Total

Dem. favored

STATE	LEADER	MARGIN
Minn. †	Smith	✓
W.Va.	Manchin	✓

Tossup

STATE	LEADER	MARGIN
Ariz.	Sinema	✓
Nev.	Rosen	✓
Mont.	Tester	✓
N.J.	Menendez	✓
Ind.	Braun	✓
Mo.	Hawley	✓
Tenn.	Blackburn	✓
Tex.	Cruz	✓
Fla.	Scott	R+0.2

Rep. favored

STATE	LEADER	MARGIN
N.D.	Cramer	✓
Miss. †	Runoff	

† Special election

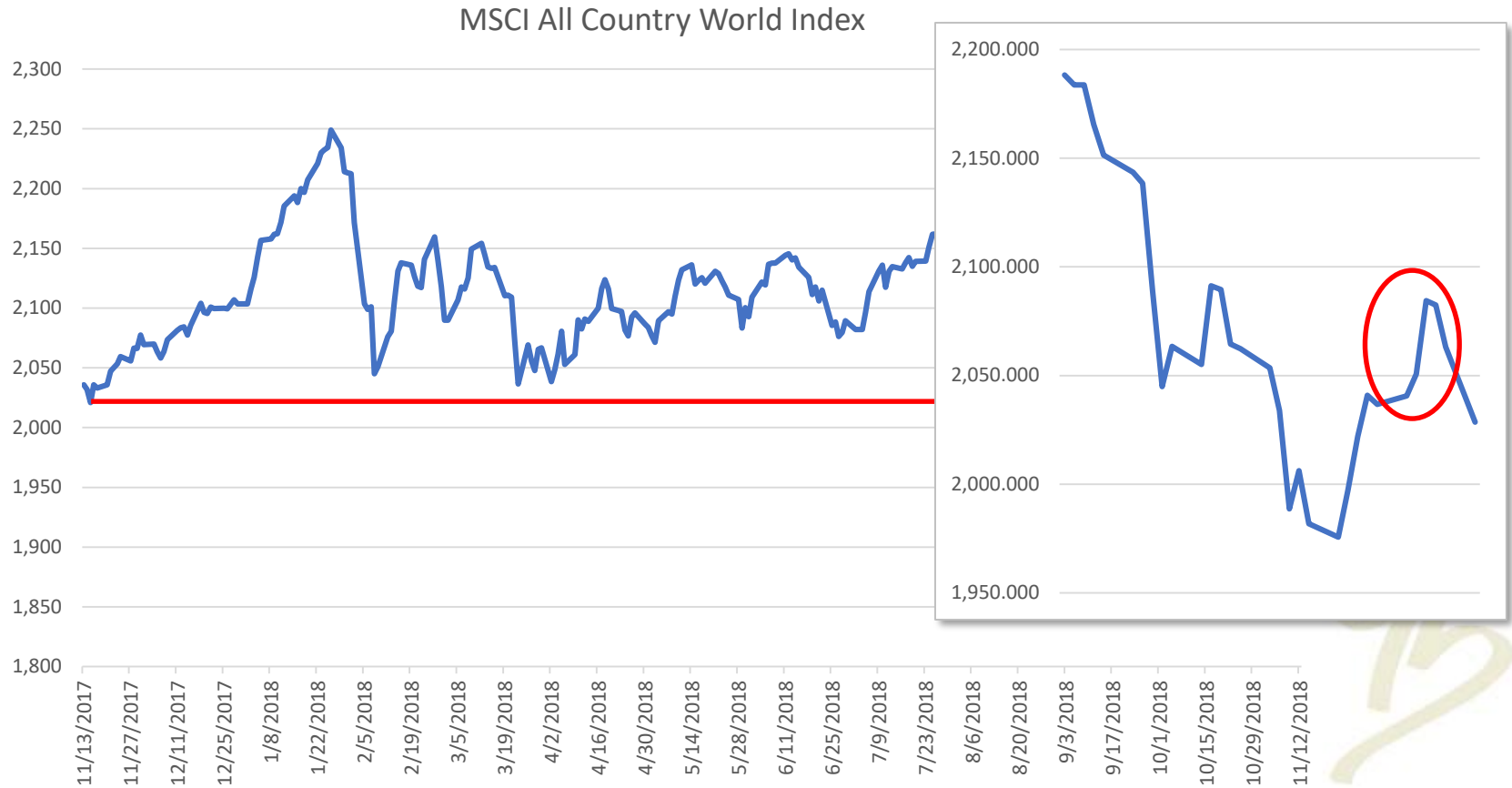


Legislative Opportunities

- Gridlock, maybe, but a few bipartisan items seem possible.
- What won't happen:
 - Strengthening the Affordable Care Act
 - Carbon emissions tax
 - Restructuring the 2017 tax cuts
- What might happen:
 - Infrastructure spending
 - Prescription drug prices
 - Middle class tax cuts (how to pay will be the sticky part)



Stock Markets



Global Stock Markets

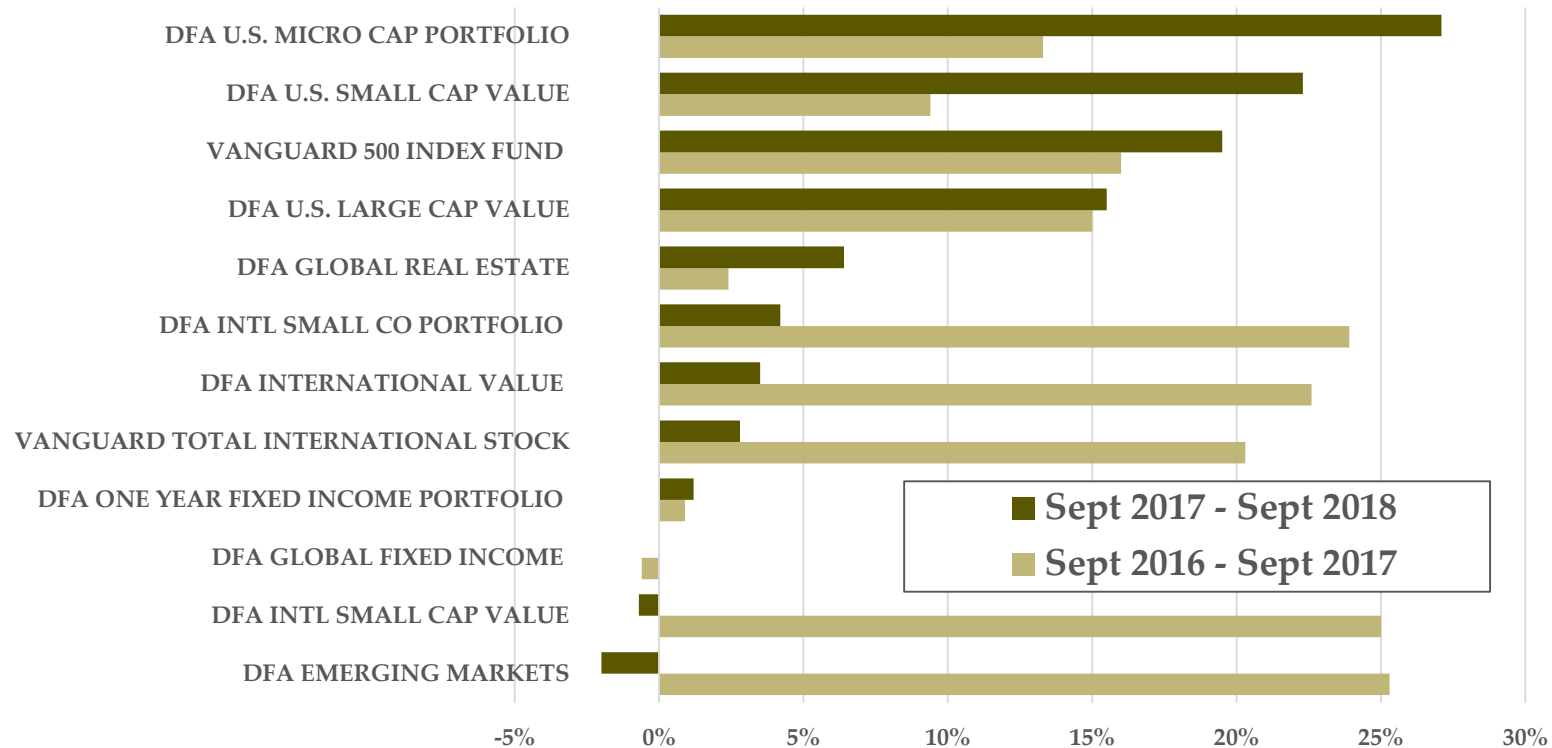
- Forward P/Es around the world:
 - Emerging Markets – 10.0
 - Euro Zone – 11.9
 - Japan – 11.8
 - United Kingdom – 11.6
 - United States – 15.7

Source: Yardeni Research



What a difference a year makes

12 Month Position Performance Summary

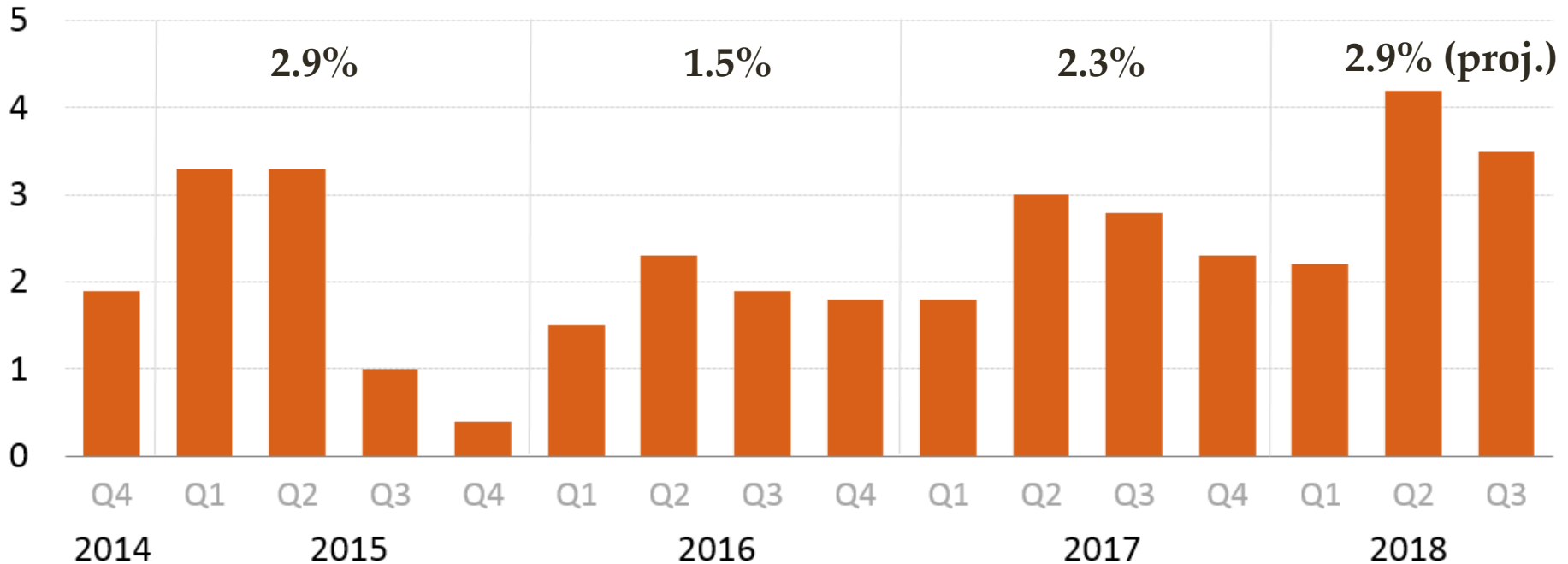


What to Watch in the U.S.

- Leading Economic Index for the U.S. **increased 0.5%** in September after rising 0.4% in August, and a 0.7% in July
 - Leading indicators rising at a slowing rate suggests the economy may be hitting resource constraints
- U.S. economic growth **3.5%** in the 3rd quarter.
- Interest Rates & Inflation: Fed Funds rate at 2.00% - 2.25%.
 - Another hike likely in December with as many as four more in 2019
- The Dollar
 - Impacts the economy and investment returns from foreign holdings

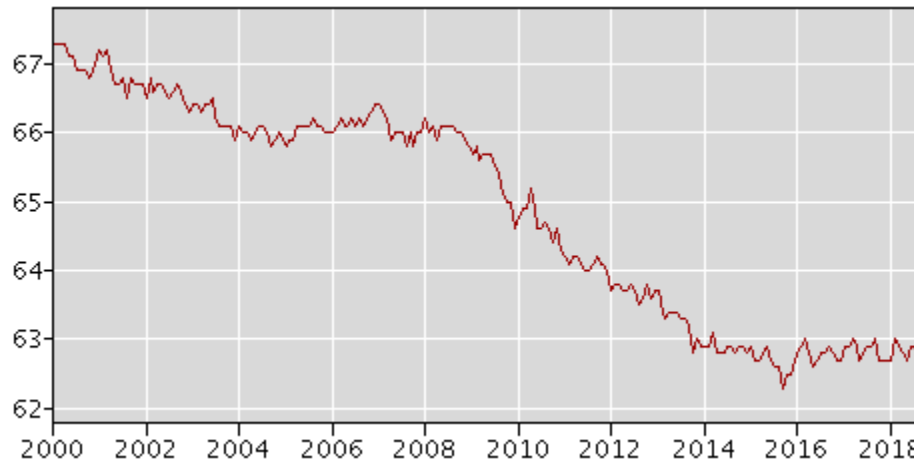
U.S. Economic Growth

Real GDP: Percent change from preceding quarter



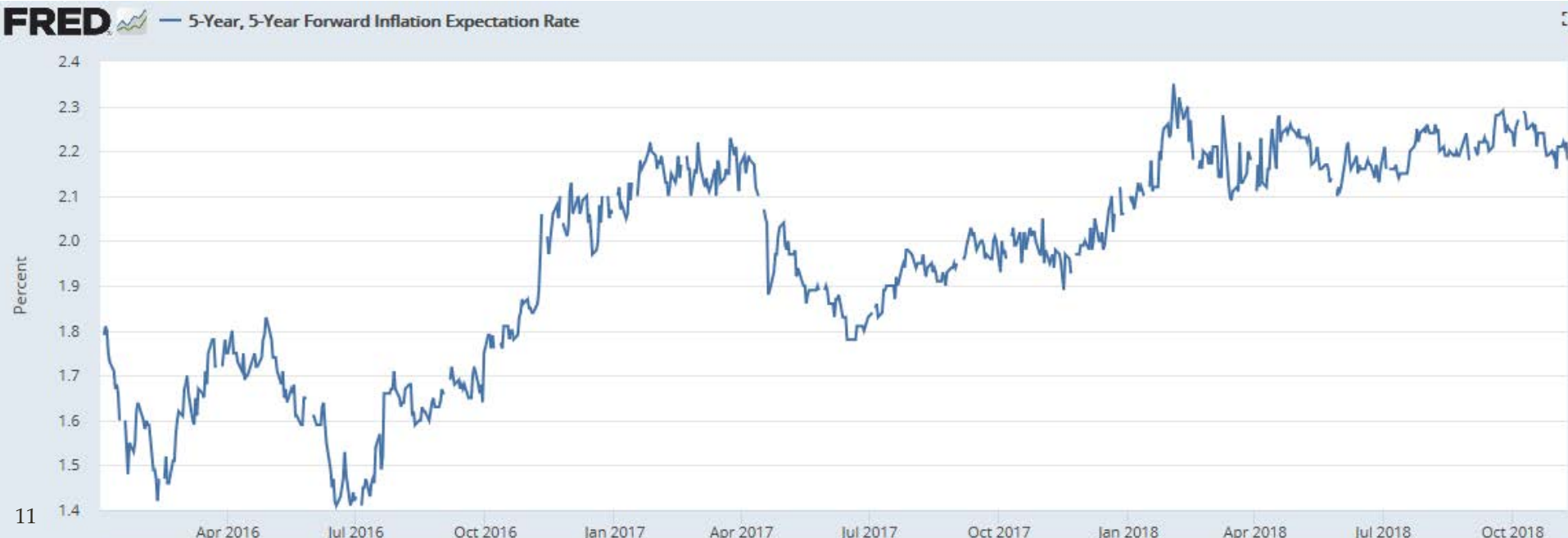
U.S. Economic Growth

- June 2019 would mark longest expansion since 1857.
- Growth rate projected to fall to 2.7% in 2019 and 2.2% thereafter, which is the longer term trend rate.
- Low unemployment (3.7%) and rising interest rates a risk.
- A higher labor participation rate could create some breathing room.



Inflation Expectations

- Expected inflation (on average) over the five-year period that begins five years from today. Calculated by comparing TIPS and conventional Treasuries.

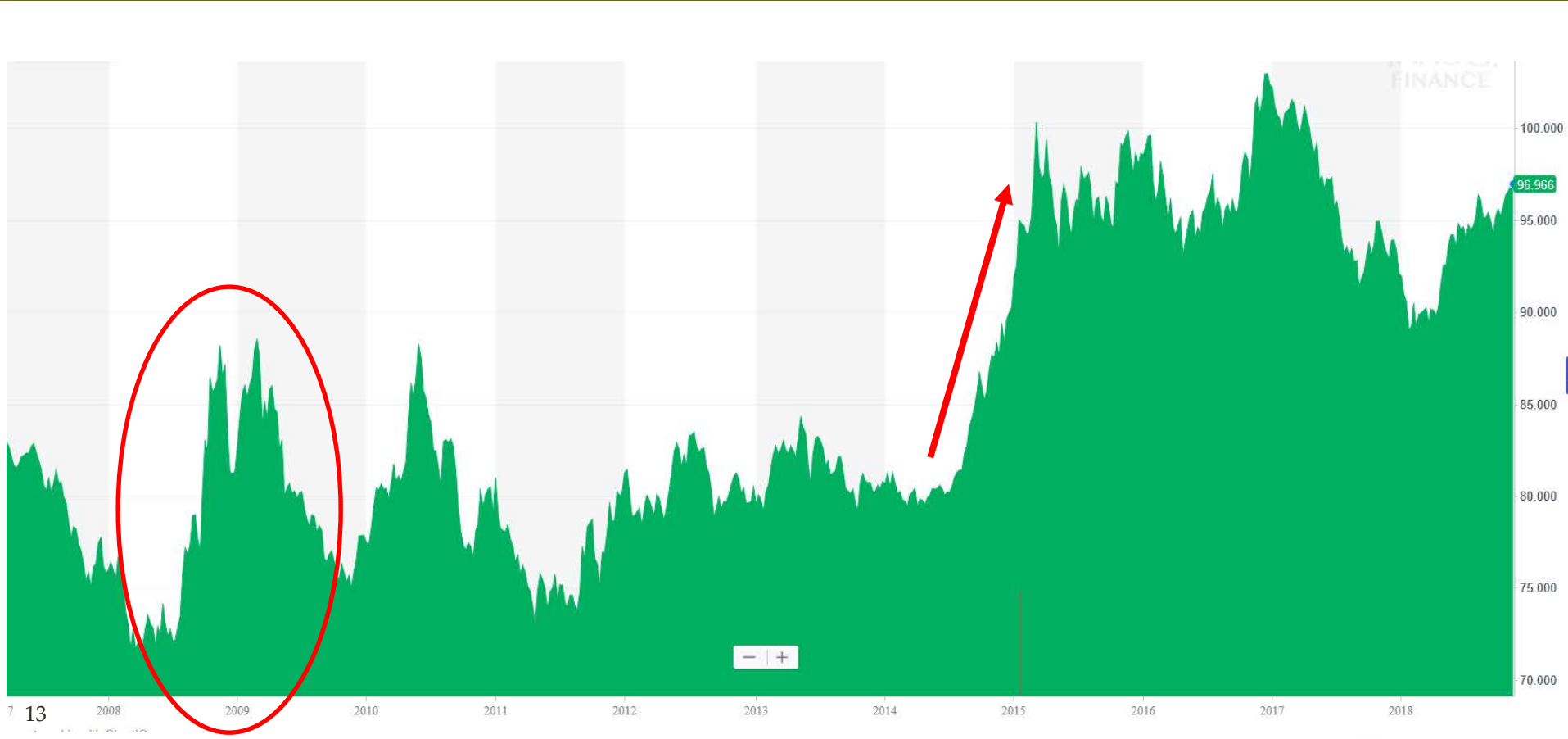


Interest Rates

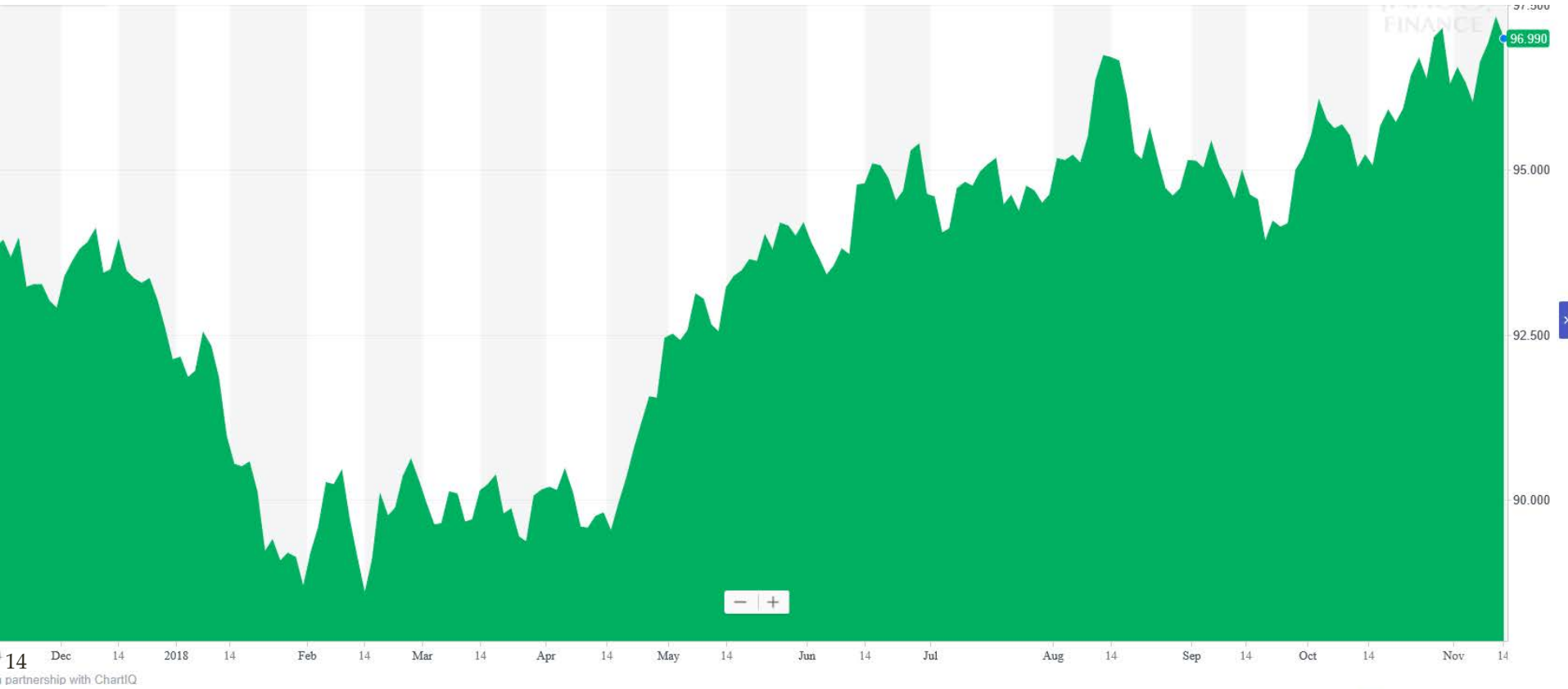
- Fed Funds rate likely to be raised again in December and possibly three times in 2019. Heading for +/- 3%/



The Dollar



The Dollar



The Dollar

\$ 10% ↑ £



+10%



+9%

96

3 Global Factors to Watch

- Threats to International Trade
 - Tariffs, tax policy, and renegotiation
 - China is the big one to watch
- BREXIT
 - UK is the world's 5th largest economy
- Italy's fight with the EU



Strategic Positioning

- Trade policies and international events
 - Any major changes will impact countries, regions, and exchange rates differently
 - Broad diversification is essential
 - Diversify across countries/regions
 - Diversify across industries
 - Diversify currency exposure (be dollar-diversified)



Strategic Positioning

- Monetary policy & interest rates
 - Rising rates in the U.S. will continue on track for +/- 3%. 10 year Treasury rate likely to rise.
 - Focus on short- to intermediate-maturity bonds, high quality, globally diversified
 - Blend of short- and intermediate-maturities may vary for “spending” vs “non-spending” portfolios

Strategic Positioning

- Inflation and Interest Rates
 - Higher inflation, within limits, can be good for corporate profits (pricing power)
 - Higher inflation, within limits, can be good for economic growth (encourages consumption)
 - Rising interest rates means its time to buy and/or refi if you've been on the fence



Focus on the Deep Regularities

- Human beings are fundamentally growth-seeking and resilient, as a consequence of which
- The U.S. and world economy are ultimately resilient and biased toward growth, thus
- The stock market, which represents ownership of the productive assets of the economy, is biased toward growth over the long run.
- Finally, the workings of the economy and markets are too complex and chaotic for short-term prediction.

And don't forget to breathe . . .



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Questions or Comments?

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