Hughes Investment Advisory Services LLC

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Dear Clients and Investors,

The summer flew by as usual and we are now into the Fall season and the last quarter of 2016. Along with this years final quarter comes all the drama that surrounds a presidential election year and this one looks to be a hotly contested one, not that they all aren't! The S&P 500 was up 3.3% in the third quarter leaving the index up over 7% YTD. I would term the 3rd quarter as a quiet one overall for the equity and bond markets, however as I expected, the S&P500, DJIA and NASDAQ indexes all registered new all-time high during the quarter. Of note, it's the first time that all three major market gauges set new closing highs on the same day since 1999.

Another Fed meeting has come and gone without a rate increase. Despite market forecasts that the Federal Reserve would raise rates 3 or 4 times in 2016 we currently sit with no increases year-to-date. I will stick with my January forecast that we will see one increase in the Federal Funds rate in 2016 and that should come at the December meeting after the Presidential election and assuming that the economy continues at its current rate of growth or better. I have a suggestion for Janet Yellen/Federal Reserve; given the prolonged period of slow growth and near-zero interest rates, why not, under these circumstances, go to 1/8-point moves in the Federal Funds rate. It's possible, that like in Japan, we may be stuck in this slow-growth, low interest rate environment for a prolonged period of time and smaller movements in the Fed Funds rate would make sense.

For now, I expect that the Fed will likely raise rates in December, although policy should remain accommodative. My readings of GDP growth for Q3 has dipped to 2.4%, down from recent readings above 3%. The Fed signaled a likely rate hike in December provided economic growth remains on track and the global financial system does not endure an additional shock. The latest Fed statement was "The Committee judges that the case for an increase in rates has strengthened but decided, for the time being, to wait for further evidence of continued progress towards its objectives". Really? I just don't see this evidence. The economy continues to perform slowly with repeated adjustments down in actual GDP numbers and future GDP growth predictions. This has been going on for years. In my opinion, the Fed is stuck since both the Employment and Inflation numbers are at or nearing their targets while GDP growth remains way below a level that would normally call for any rate hikes. They want to raise rates in order to normalize returns for savers and also to position themselves better for any future downturn but if they raise rates now they risk tipping a fragile and lengthy recovery into a recession. This is the main reason for keeping rates where they are or perhaps raising by only a 1/8 of a point as mentioned above.

U.S. Inflation is slowly creeping higher. The core Consumer Price Index climbed 0.3% in August and is up 2.3% year-over-year. The Fed targets 2% and worries when this core rate reaches or exceeds 3%. The Unemployment rate remains at 4.9% - a number traditionally considered desirable and healthy.

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US equities appear more attractive than international stocks. Compared to overseas alternatives, generally speaking I believe that the US market offers better economic growth, stronger earnings trends and more supportive and sensible monetary policy. No negative interest rates for the US as compared to Japan and Europe!

While weakness in Greece, Italy, Spain and Portugal remain and BREXIT has been passed and will come to fruition in the next 24 months, my primary market concern revolves around another less discussed topic and that is trade wars. My view is that currently we are deep into a quiet but serious trade war with Europe over taxes and financial fines and penalties. Where are these battles taking place: Volkswagens massive $16.5 billion civil fine and an additional $14 billion dollar criminal fine is now being considered by the Justice Dept. and now Deutsche Banks potential $14 billion dollar fine over possible financial crimes from 2008. These fines are massive and potentially crippling to these giant worldwide corporations and carry the possibility of bankrupting these important corporations that employ hundreds of thousands of people in Europe and around the globe. In retaliation, I believe, is the announced $14.5 billion dollar tax fine that the EU is looking to impose on Apple Computer. These are not small numbers and the implications are huge were this to continue. Global trade is crucially important to US and international businesses and has been the bright spot for our economy since the 2008 recession.

I will be keeping a close eye on this especially as it relates to the Presidential election since both candidates have so far, both, been making statements that would appear to enhance future trade war possibilities. I am a firm believer in free trade and its long term benefits for US corporations their workers, shareholders and US consumers.

The US continues to gain advantages versus our global trade partners through continuing growth in our oil and gas sectors and especially the strength of our large financial institutions thanks to smart moves taken by Washington immediately after the financial crisis in 2008. Europe's major banks continue to struggle financially as evidenced by Deutsche Banks recent woes. Thank you former Treasury Secretary Hank Paulson!

At this time I am cautious as we head into the 4th quarter and the November election. I continue to favor large-cap, dividend paying, multi-national companies with strong balance sheets. Select multi-nationals in Europe that fit into the same category, as our US companies are also attractive. Elsewhere, I'm finding only select Asian economies of interest at this time. Risk/reward continues to favor equities over fixed income. Select MLP's, corporate and muni bonds continue to present opportunities as income producers.

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