January 6, 2017

Dear Clients and Investors,

Welcome to the New Year. A lot has changed in the last three months since the writing of my third quarter outlook. The biggest surprise, of course, was the election of Donald Trump who shocked just about everyone with his election victory, more on what this means for the markets below. US stocks closed out trading in 2016 on a positive note. The S&P 500 was up over 4% in the final quarter of 2016 and finished the year positive by 11.7% Each year at this time I like to reflect back on last years predictions to see how they turned out.

Where was I correct in 2016? I'm happy to say that all my predictions were very accurate calls:

- The S&P 500 rose 11.7% just above my call for a +10% while GDP Growth looks like it will finish with a gain of approximately 2% for 2016 – just under my 2.75% prediction. Unemployment rate of 4.7% just below my 5% prediction.
- Emerging markets rose 11% just under the call of 13%
- Interest rates did rise with the 10-year Note at 2.5% just below the call of 2.75%
- Auto sales gained for the 7th straight year eking out a record 17.6 million, Real Estate markets continued their steady momentum.
- Consumer Confidence numbers rose again especially post election, CCI at 113 compared with 98 a year ago – stronger than predicted.
- Inflation rose but did remain subdued at 1.7% as predicted
- Oil prices did surprise to the upside ending at $53.00 per barrel as predicted.
- I went totally against the grain with my call for 1 interest rate hike by the Federal Reserve in 2016, which proved to be correct.

What lies ahead for the US and World economies and markets in 2017? The current economic recovery turns nine this summer making it the third longest in US history. However, this recovery still appears young at heart. It has not yet sustained a real growth rate above 3%, has never been driven by excessive borrowing or lending. The clear excesses that I saw in 1999 and 2006 are not present in today's economy which is very good news since the Federal Reserve does not currently need to aggressively hike interest rates to tamp down excessive growth or inflation. Their 3rd mandate is employment and despite a low employment rate of 4.7% millions of potential workers are "parked" on the sidelines and could easily reengage as wages and opportunities improve.

For eight plus years the Federal Reserve has been carrying the load of trying to jump-start the US economy via monetary policy/lower interest rates. These moves by the FED have helped but they have run their course and now our politicians in Washington via Fiscal policy must take the lead. Fiscal policy is when our government uses its regulatory, taxing and spending powers to have an impact on the economy. So what should we expect from the new Trump Administration and republican House and Senate? I believe that the first 100 days after the inauguration will witness extraordinary policy moves that will have a dramatic effect on the economy.

The new administration has promised a lot and the topics are varied but for our purposes and what concerns me are the pro-growth business goals of the Trump administration. I believe that Washington will deliver on, lower corporate and personal taxes, less business regulation, re-negotiate NAFTA on more favorable terms for the US and infrastructure spending. Additionally, a lower corporate tax rate will allow and encourage US corporations to repatriate much of the 2 trillion dollars in accumulated overseas profits which will be used for four purposes, all of which concern us as investors: 1. Business investment in plant, equipment and employees. 2. Higher stock dividends. 3. Debt reduction. 4. Stock buybacks.

Outside the US I am also seeing positive signs from countries around the globe especially: Japan, Brazil, Russia and most of Western Europe. Global economic growth appears to be accelerating and broadening. This rare synchronization in the economic recovery comes just as the US has elected a pro-growth President about to take office as described above.

Corporate earnings have been stagnant since they peaked in 2014. However, the earnings cycle seems to have been refreshed and restarted. Healthy gains in earnings are projected in 2017, which should allow for higher equity prices. S&P 500 earnings should achieve $130.00 in 2017. It will be earnings that drive stocks higher during the next cycle and not low interest rates and low inflation. What does all this mean for 2017?

- The S&P 500 will rise 14%, GDP growth of 3+%, Unemployment 5.0%
- Interest rates continue to rise, 10-year note yield 3.50%
- Real estate and auto industries maintain moderate growth of 1-3%
- Consumer confidence remains strong
- Inflation moves above 2%
- Oil remains in the $45.00 $65.00 per barrel range
- US dollar continues to strengthen broadly – euro/dollar parity achieved

At this time I continue to favor all sizes of US companies with less emphasize on dividends and more towards growth. Select multi-national European companies with strong balance sheets. 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 high yield, convertible, preferred and muni bonds continue to present opportunities as income producers.

Sincerely,

J. Britt Hughes
Registered Investment Advisor
Britthughes2@icloud.com www.hiasllc.com