

# Around the World in 60 Minutes

Presented by Dr. Dave Yeske, CFP<sup>®</sup>



# John Kenneth Galbraith

*“Pundits forecast not because they know, but because they are asked.”*



# Why travel the world?

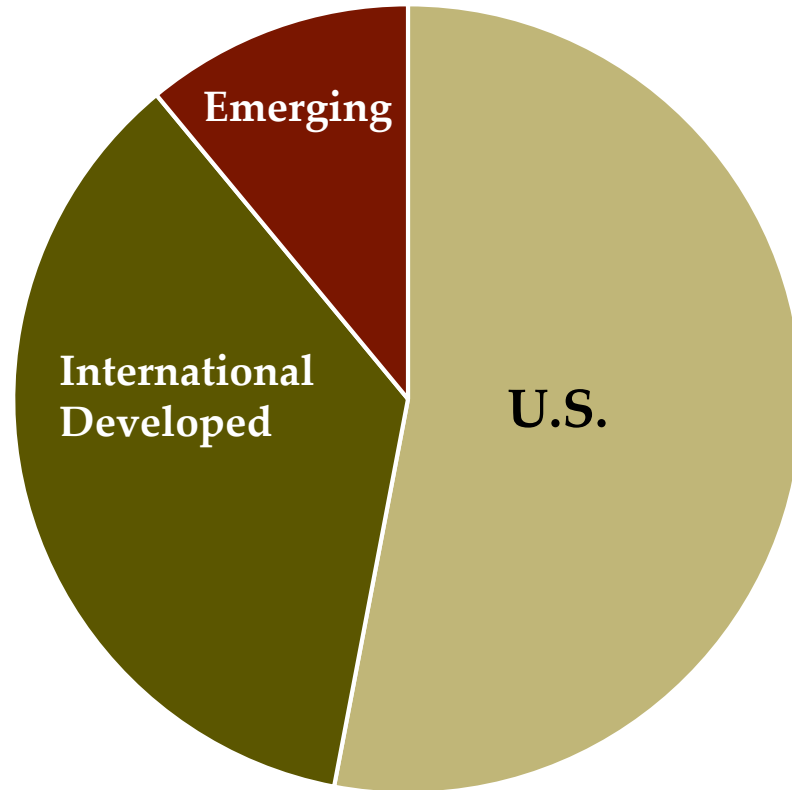


# What is there to learn?

- 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.

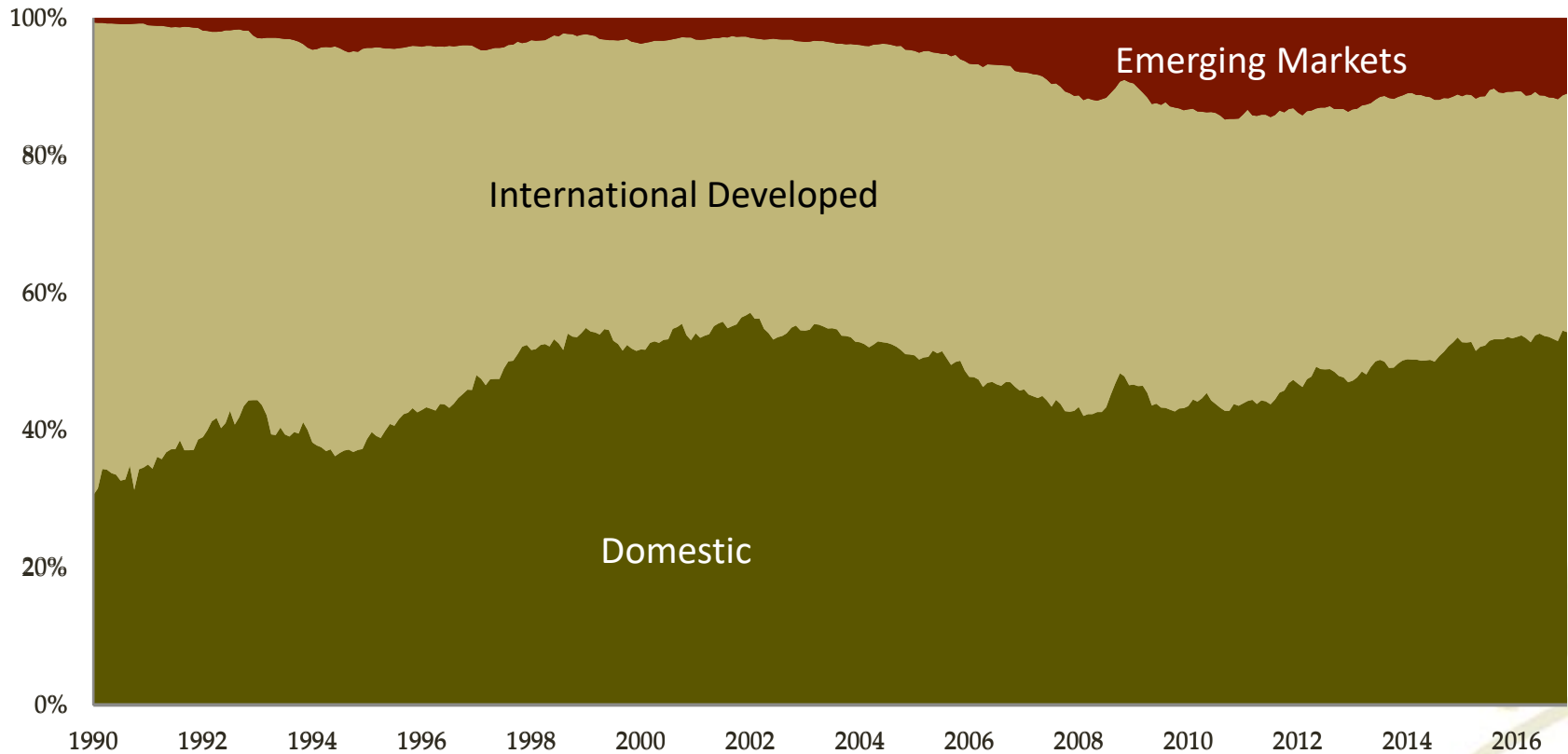


# Half the market is outside the US



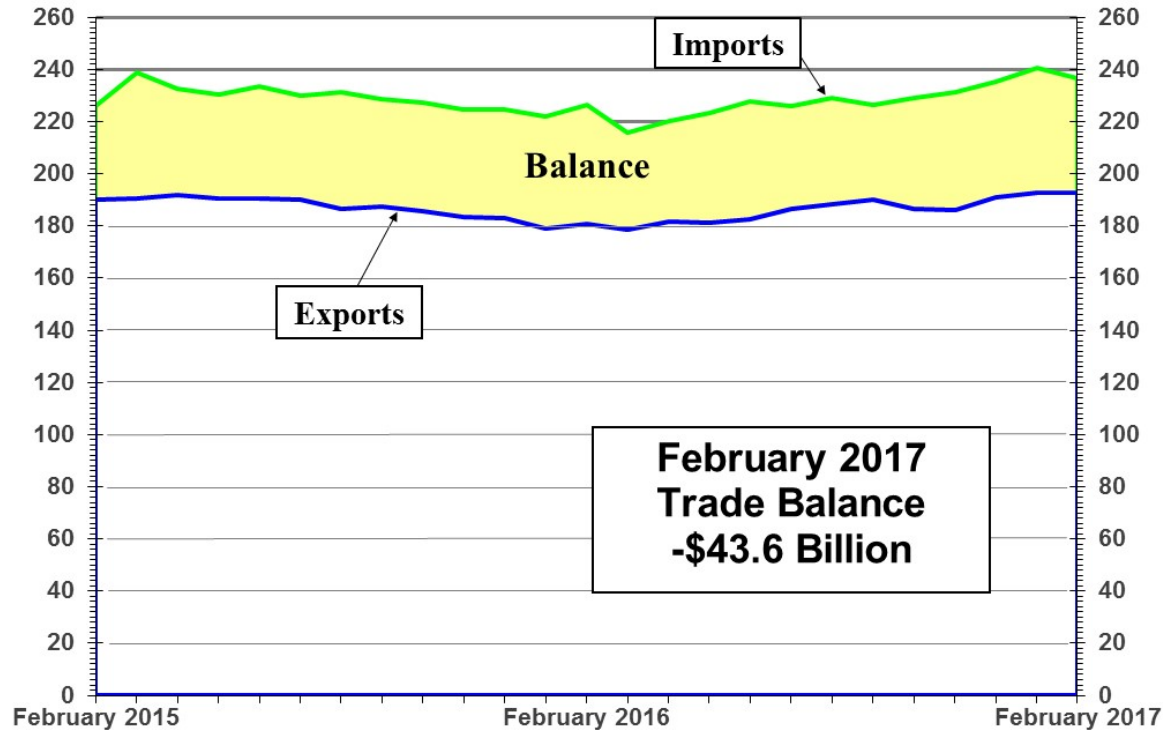
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# Shifting Shares



# Two Trillion Dollar Connections

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

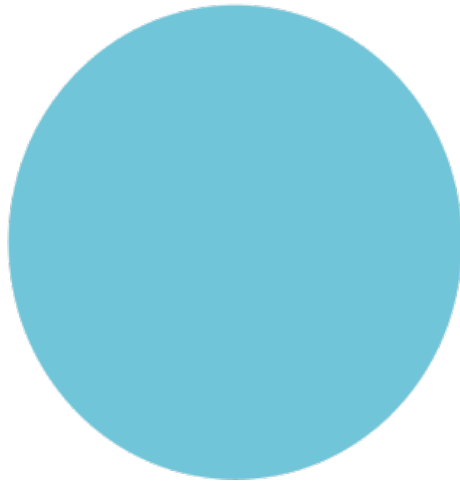


Source: US Census Bureau



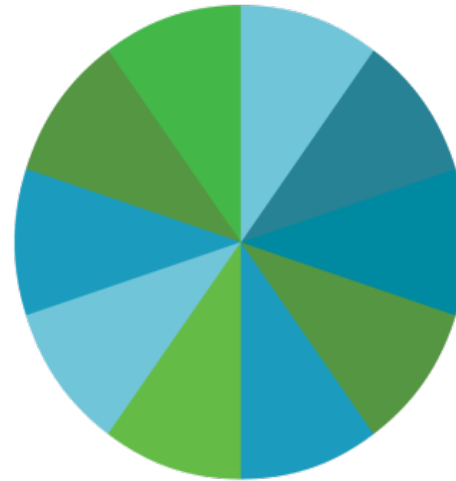
# Global (“real”) Diversification

**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 19<sup>th</sup> 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.



# Eurozone Economic Developments

- 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.



# Political Developments in the U.S.

- “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

	Republican Proposal	Democratic Proposal
Normal Retirement Age	69	67
Cost-of-Living Adjust.	Chained-CPI	CPI-E
FICA taxes	Same	Resumes > \$400,000
Taxation of benefits	Eliminated	\$32,000 → \$100,000 + CPI
Fully covers shortfall	Yes	No

- 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?



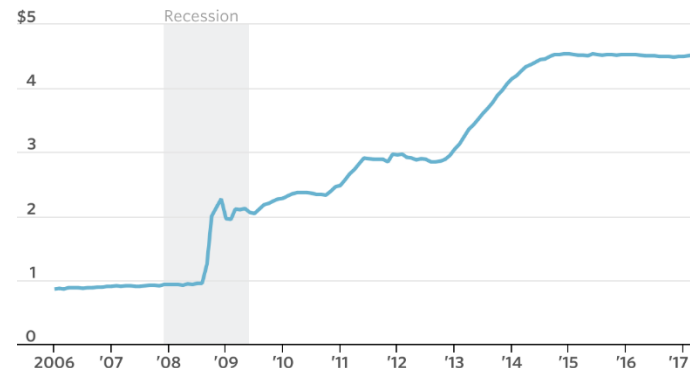


# U.S. Economic Developments

- 4<sup>th</sup> 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?

Fed's balance sheet

In trillions of dollars



Source: Haver Analytics/Federal Reserve

# Key Numbers

S&P 500

26

Emerging  
Markets

12

All Country  
World Index

18

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16

Europe

13



# Build Resilience

- 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 . . .



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Thank you!



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