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# MARKET INSIGHTS

The latest Market Insights
from the Connected Wealth team

# It's The Economy Stupid

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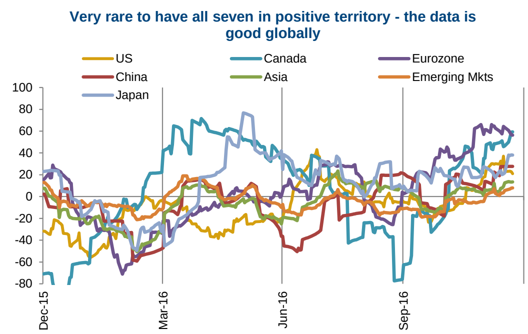
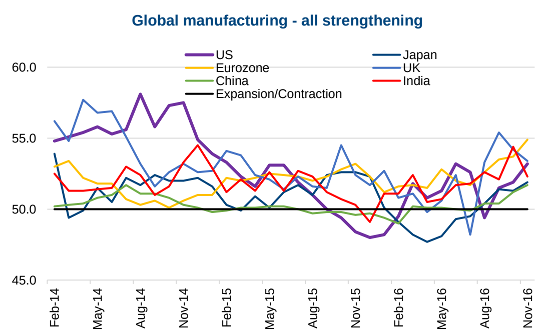
*Note: this will be our last Market Insight of 2016 and for the record we are not calling anyone 'stupid'. We would like to thank our readers and supporters for helping make 2016 a truly great year. Bring on 2017.*

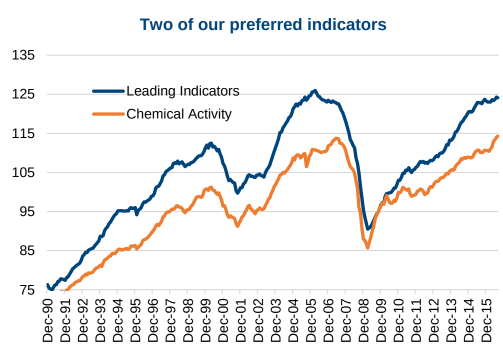
It is rather amazing how often Trump has been given credit for the current environment. The preponderance of commentaries attribute higher bond yields to the upcoming fiscal spending by the Trump administration that will foster growth and need to be financed. The Dow is knocking on 20,000 in what is being often called the Trump rally. U.S. financials have jumped 20%, with many claiming reduced regulation as the lifting factor (with some help from higher yields). The list goes on. I do wonder if many writers find it easier or more marketable to tie everything to Trump. Does it sell more papers or get more clicks (that then begets more ad revenue). Fortunately, we are not selling any banner ads nor are we paid for how many readers we have. Our future success is predicated on being right more often than wrong, and we would attribute more of these market moves over the past few months to the global economy, not the newest commander and chief (although he has helped push things along).

The irony of our title should not be lost, it was used by the Clinton campaign (Bill, not Hillary) to dethrone Bush. The Trump win certainly could lead to some big positives thanks to fiscal spending, tax changes and deregulation. However, it could also lead to negatives on trade, immigration or random Tweeting. These are all unknowns, but what we do know is the global economic data has been largely improving over the past six months and we believe this to be the bigger driving force behind rising yields, the market and this new sense of optimism.

The data has been coming in better than expected (top chart). Citigroup creates an economic surprise index for many countries and regions that measure how the data comes in relative to the consensus. Of note, the big 3 including the US, Eurozone and Asia are all in the positive territory. The secondary indices we like to monitor including Canada, China, Emerging markets and Japan are all in positive territory as well. Global PMI data has also been very positive. This is a forward looking index that measures future intentions in the



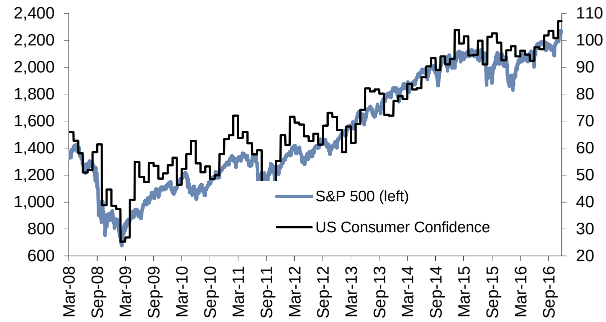



manufacturing industry (chart 2 on page 1). Again, all are above 50 and many are rising decently.

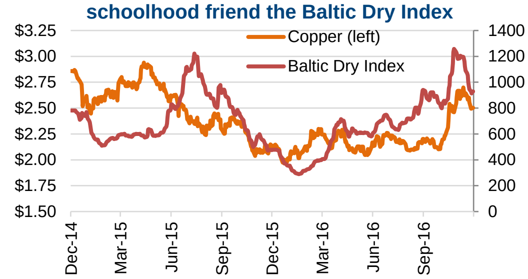
The bottom chart on the previous page is the U.S. Leading Indicators and Chemical Activity. The Leading Indicators (LI) is a basket of data points that have proven reliable in the past as a foreshadower of economic activity.  The chart goes back to the 1990s and as you can see the LI began to deteriorate long before the last two recessions. The fact that it is currently rising is very encouraging.  We also look globally and Leading indicators are rising in the Eurozone, UK, Japan, China and Germany.  This is also rare to have such synchronized growth and it is encouraging. The 2nd line on the chart is the chemical activity index. Chemical activity is pretty high up in many production chains and rising activity is often a precursor for broader economic activity.  Again, pretty positive.

The list goes on. Consumer Confidence, which correlates very well with the capital markets, has made a new cycle high….as has the market. Copper prices have risen off the floor.  While the price has come back down a little, $2.50 per pound is a much healthier sign for the global economy than $2.  Given copper is an input in so many industries, it has historically been a good indicator for global economic activity.  The Baltic Dry Index is based on shipping rates across a number of key routes based on ship size. It too has come back down a little but has spent most of 2016 rising. Again a sign of more economic activity.

Confidence & the S&P 500, a strong relationship




Mr. PhD in Economics and his schoolhood friend the Baltic Dry Index




## What it all means

Economic growth is good, and synchronized global economic growth is even better. The benefits are many with a few costs. After spending so many years with sporadic economic growth that at times bordered on anemic, and uber low yields, many business/investment models may be disrupted. Who wins in a more "growthy" world may well differentiate the winners and loser for 2017.  Stay tuned for more on this in our year ahead.

*Charts are sourced to Bloomberg unless otherwise noted.*