



HPM PARTNERS

INVESTMENT ADVISORY • WEALTH MANAGEMENT • RETIREMENT PLAN SERVICES

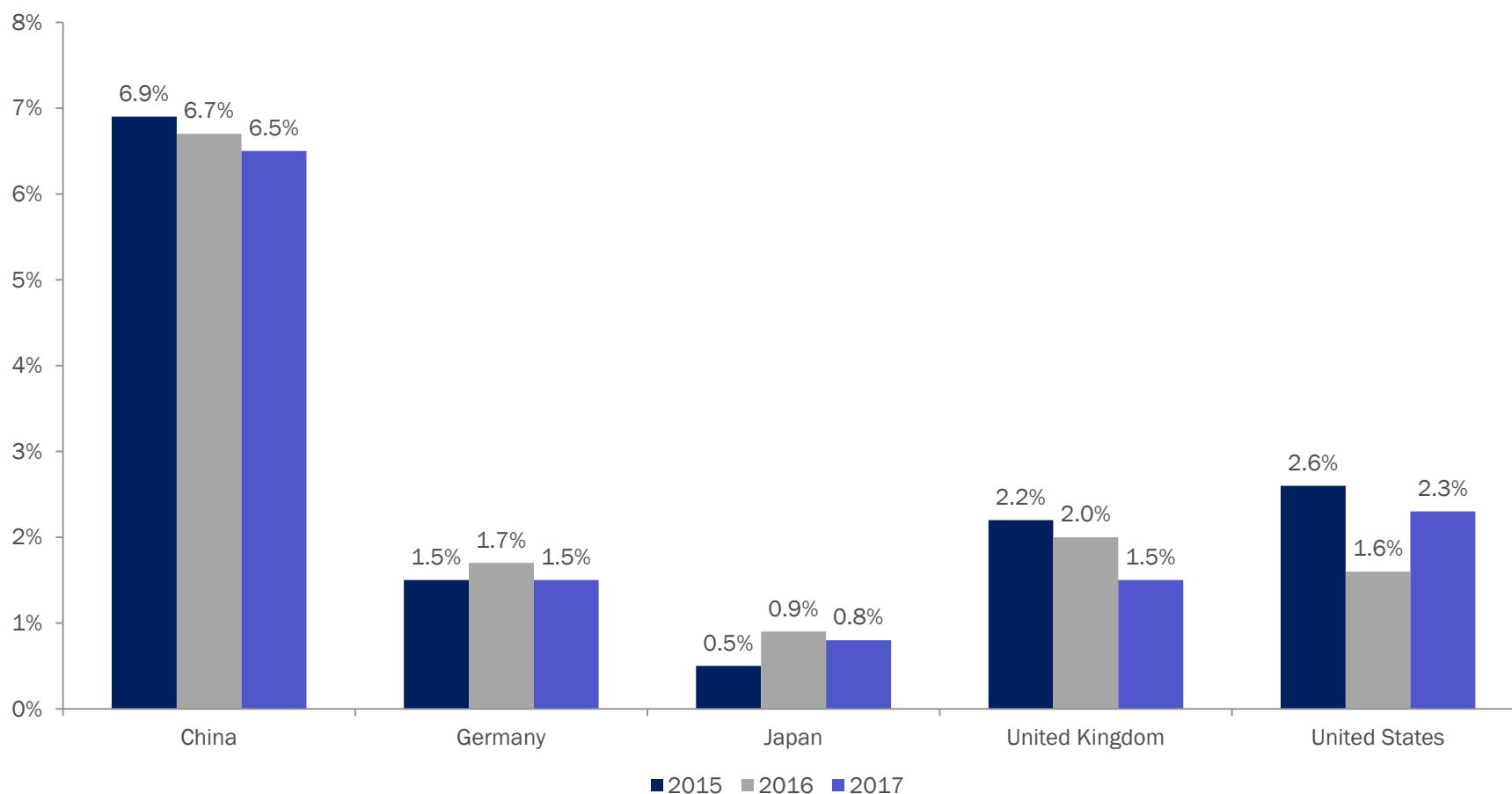
Economic Outlook 2017

January 2017

Benjamin A. Pace, III
HPM Partners Chief Investment Officer

Global Growth – Slowdown in China & the UK

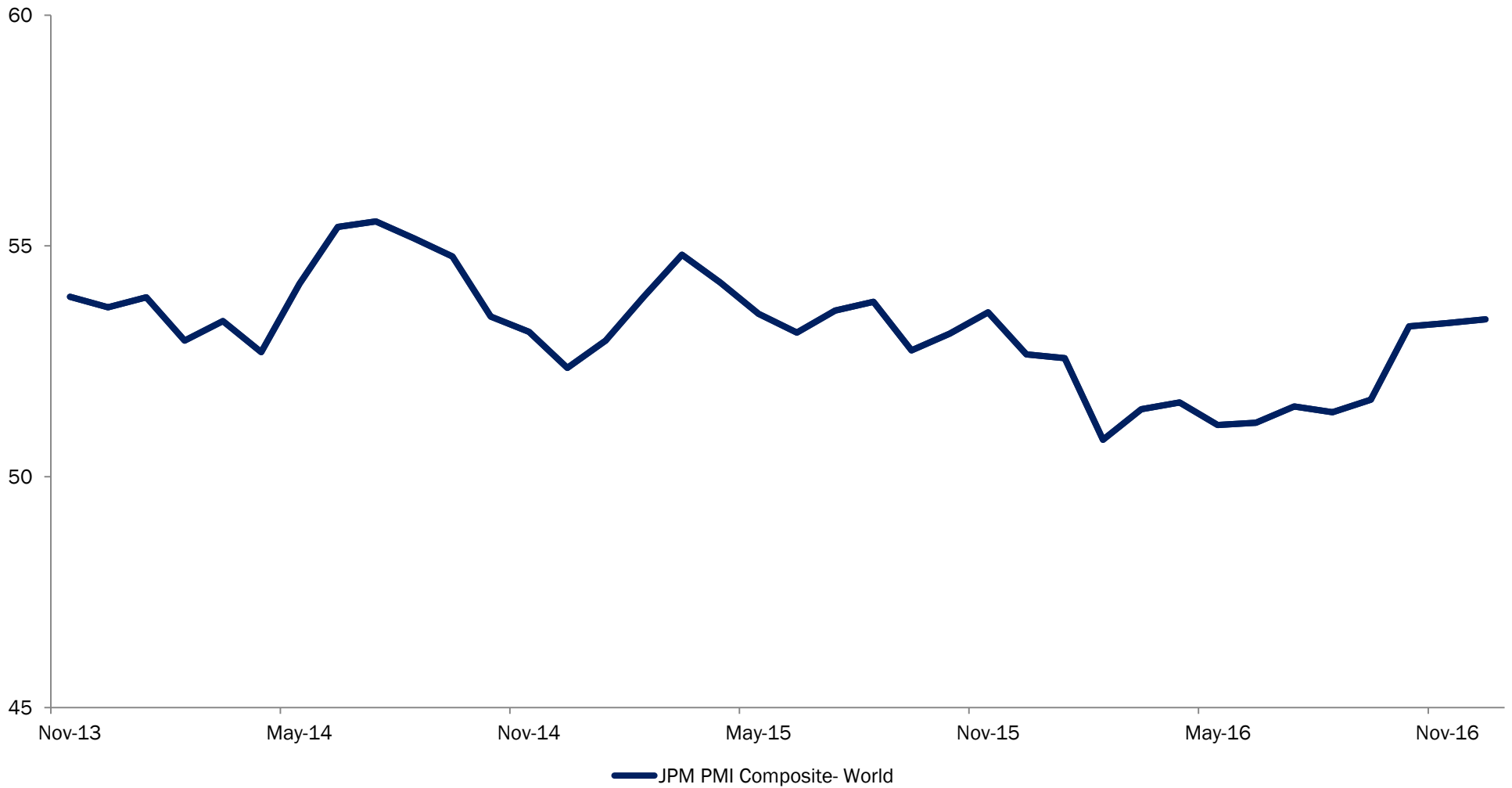
The Big Five Economies



Source: IMF. As of January 2017.
Note: Based on national currency. 2016 & 2017 are forecasts.

Global PMI Data Paint An Encouraging Picture

Global PMI



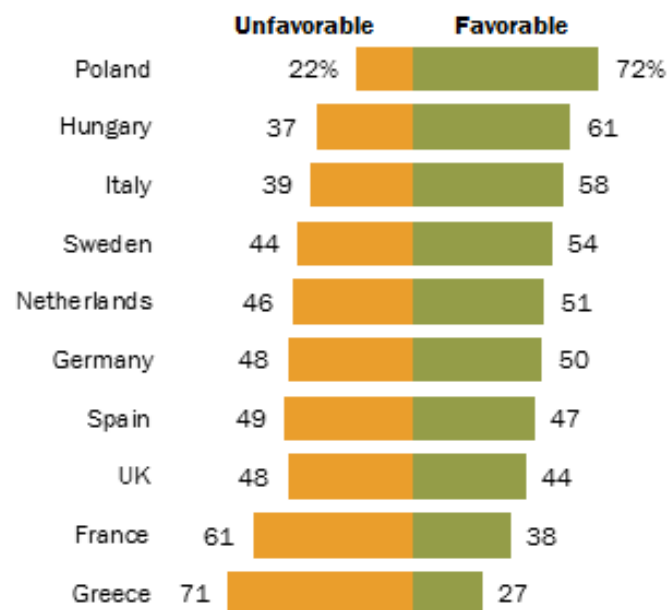
Source: FactSet.

Global Growth – Rising protectionist sentiment across the globe

Rise in International Skepticism

EU favorability varies widely in Europe

Views of EU



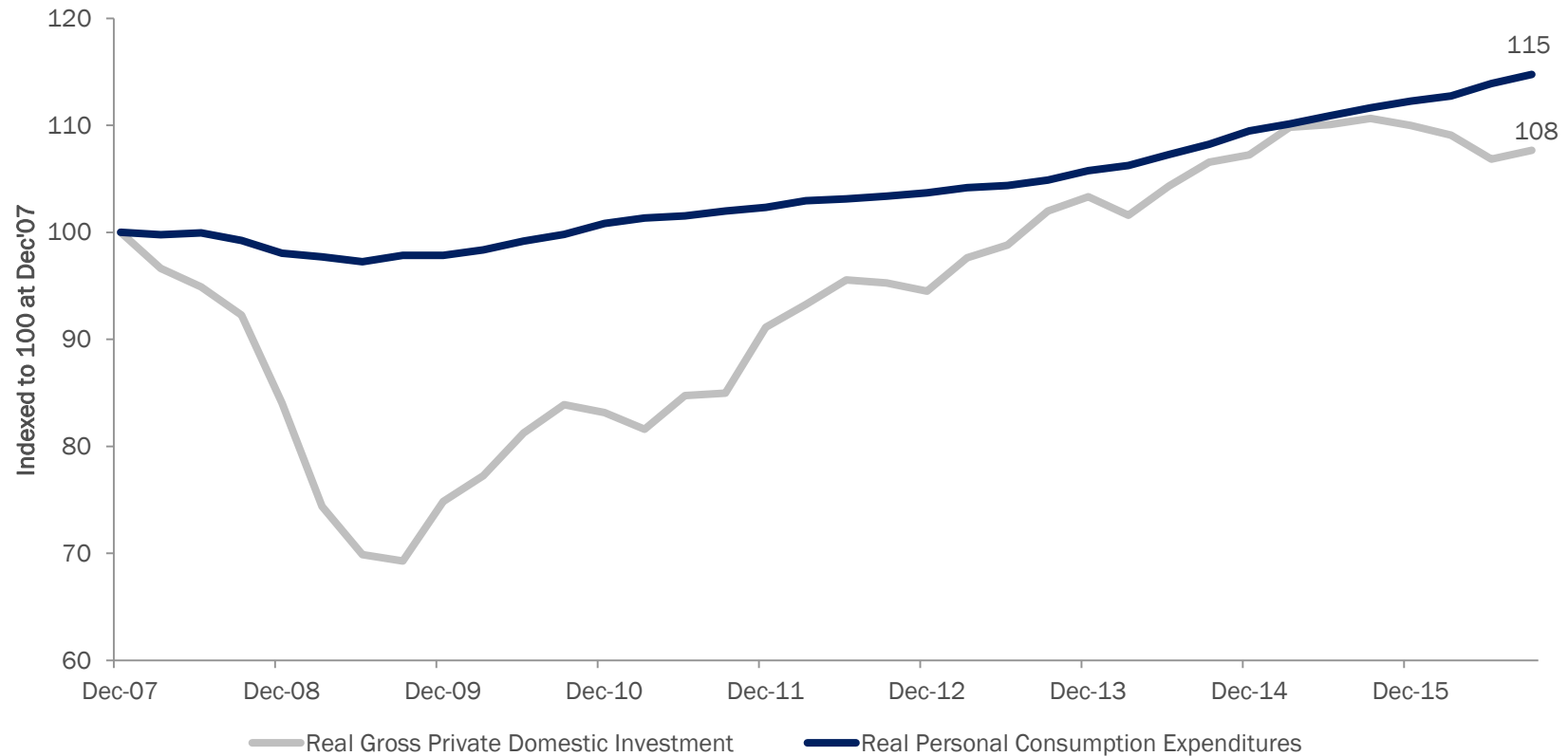
Source: Spring 2016 Global Attitudes Survey. Q10c.

"Euroskepticism Beyond Brexit"

PEW RESEARCH CENTER

US Growth - Strong consumer spending offsetting weak manufacturing and capital spending

The Consumer vs. Capital Spending



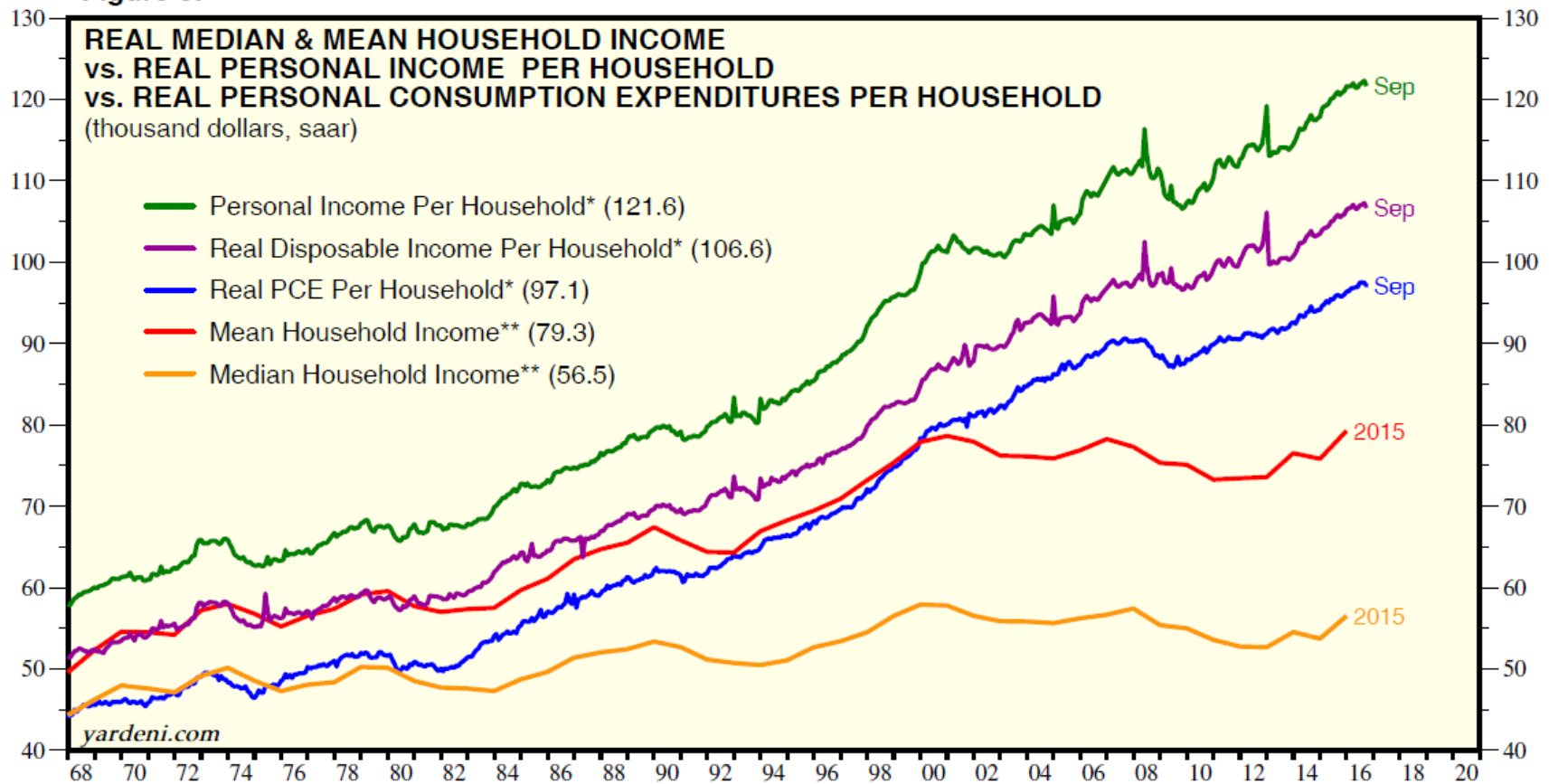
Source: FRED.

Household income – Stagnation of income depends on the metrics

Income & Consumption Growth

Average Real Consumption Per Household

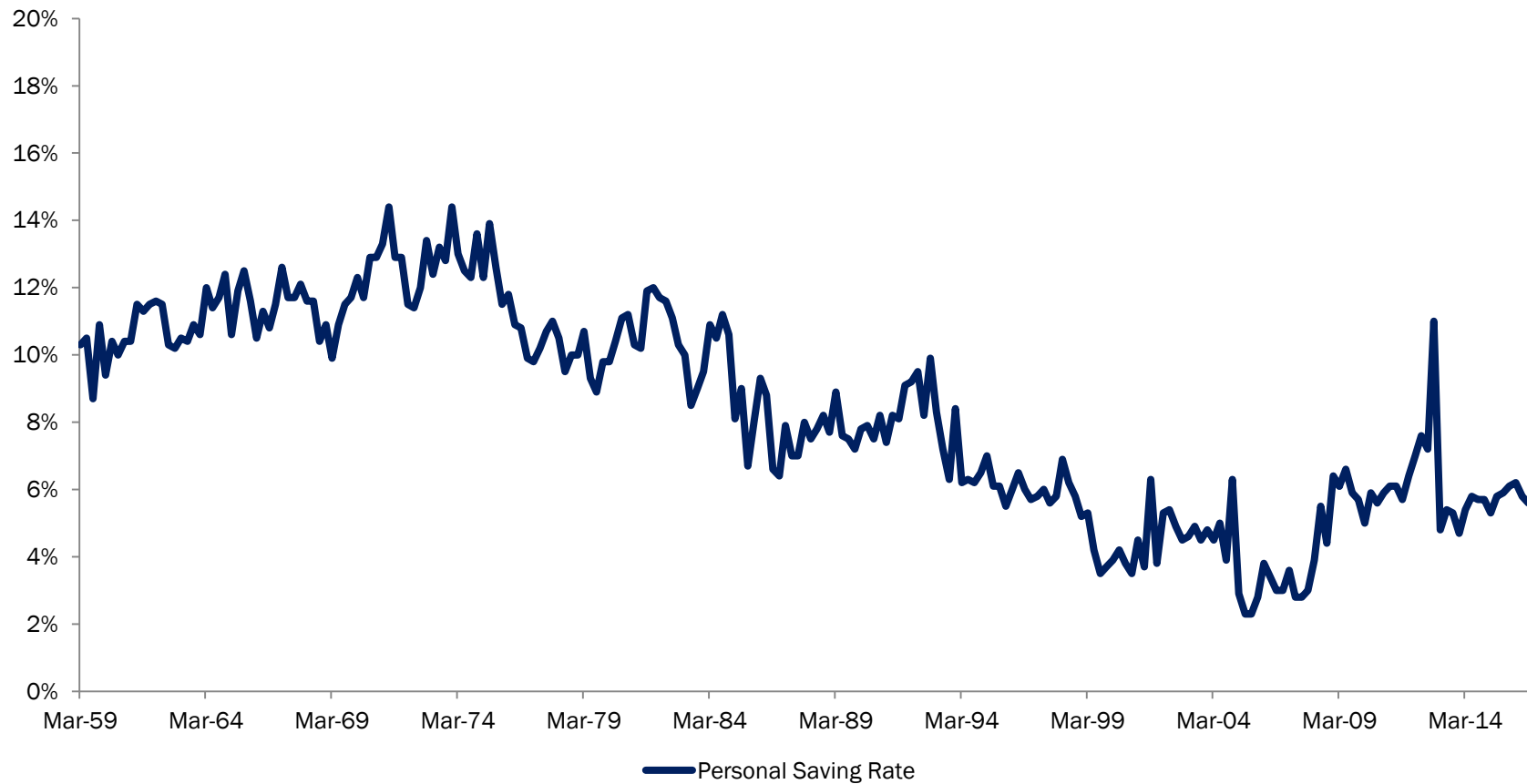
Figure 3.



* 2009 dollars using PCED. **2014 dollars using CPI.
Source: Bureau of Economic Analysis, Bureau of the Census and Current Population Reports.

Savings - Off Its Generational Low, But Still Below Average

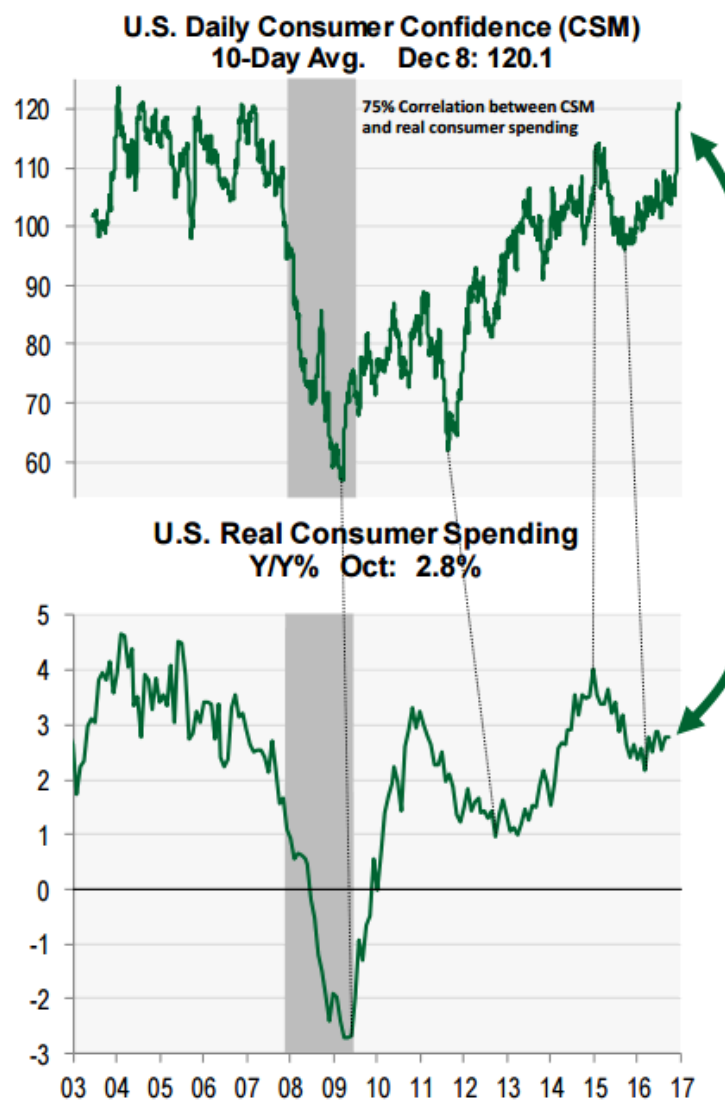
Savings Rate



Source: FRED.

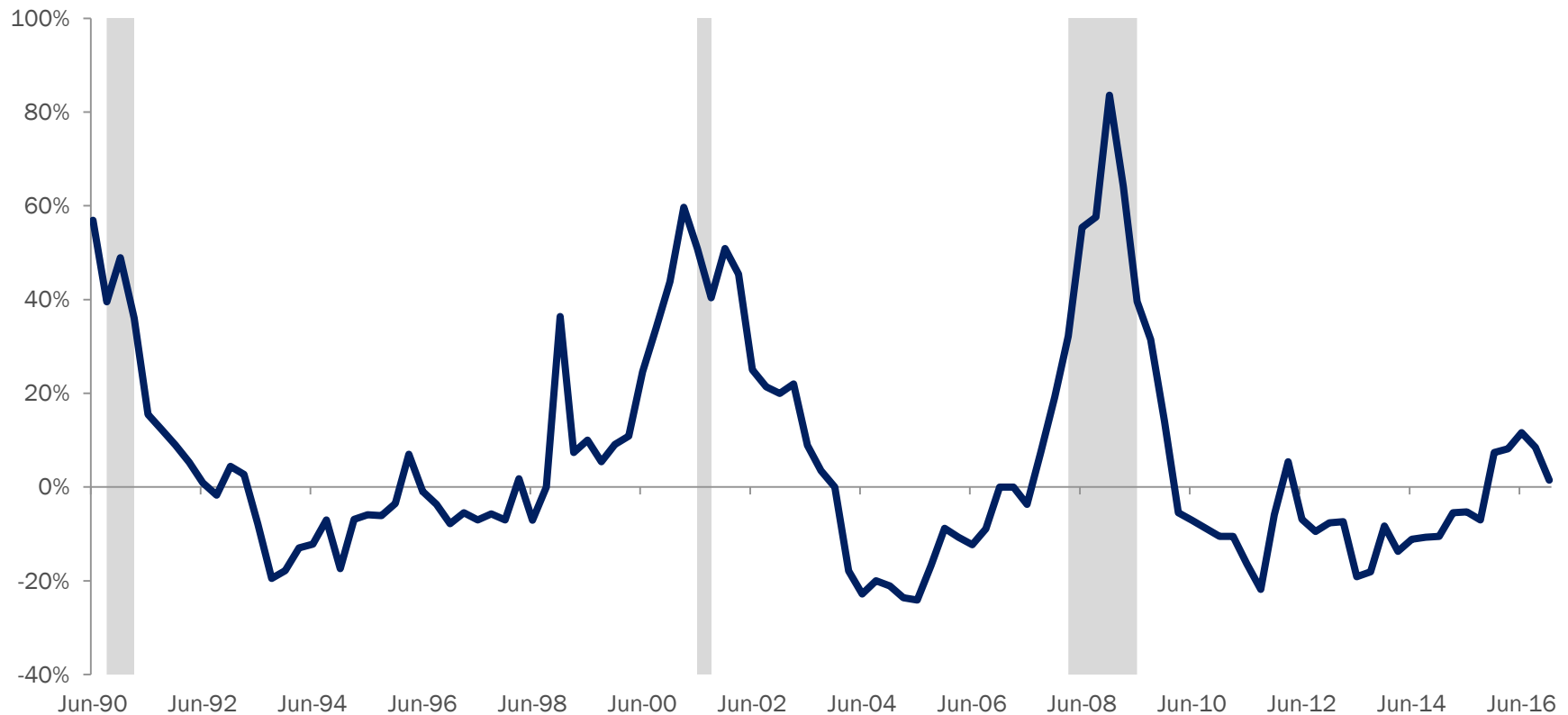
US Consumers Are Feeling Bullish

Consumer Sentiment & Spending



Commercial and Industrial Lending – Tightening restrictions at banks?

Net Percentage of Domestic Banks Tightening Standards

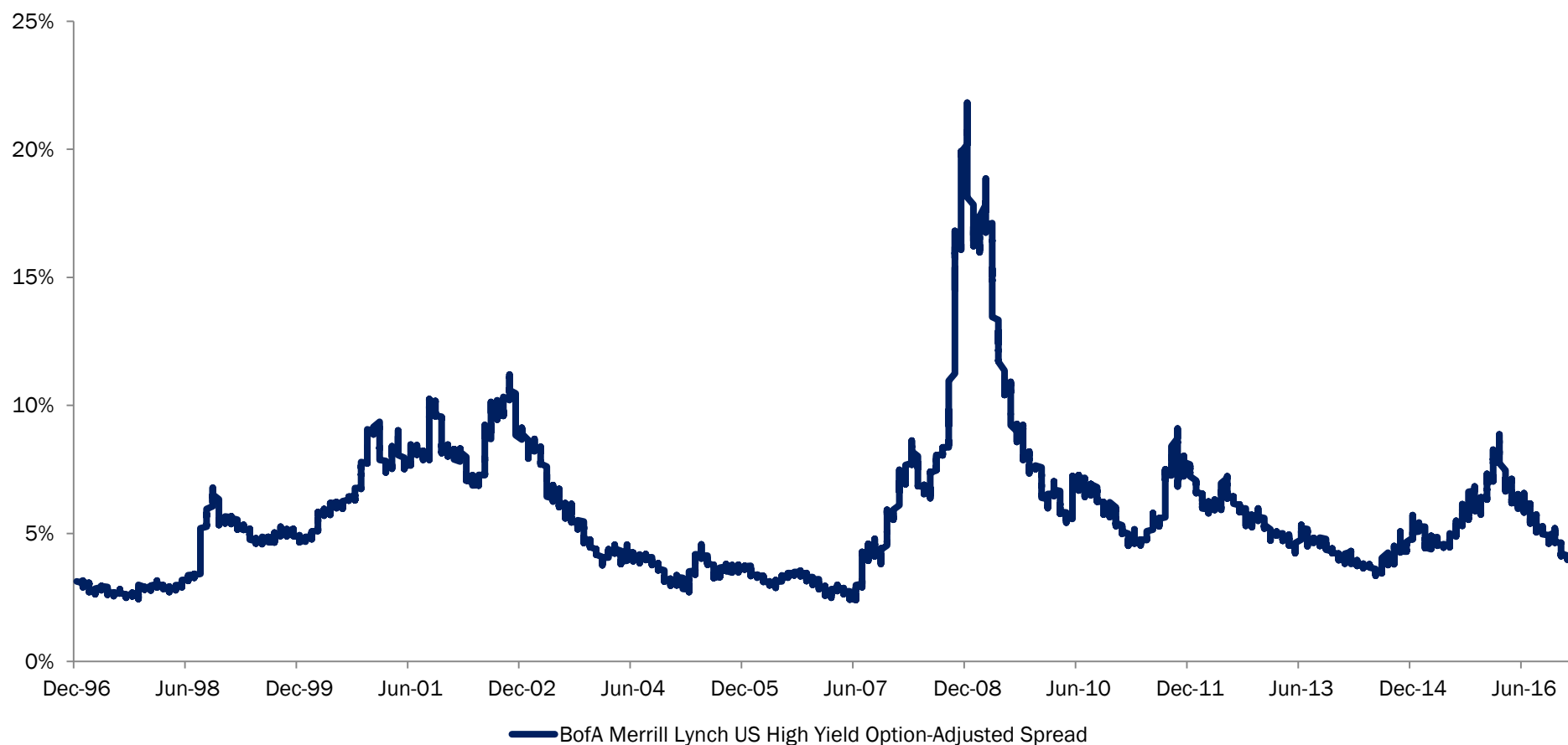


Source: FRED.

Note: Net Percentage of Domestic Banks Tightening Standards for Commercial and Industrial Loans to Large and Middle-Market Firms; recessions in grey.

2016, the Reverse of 2015 as spreads compressed

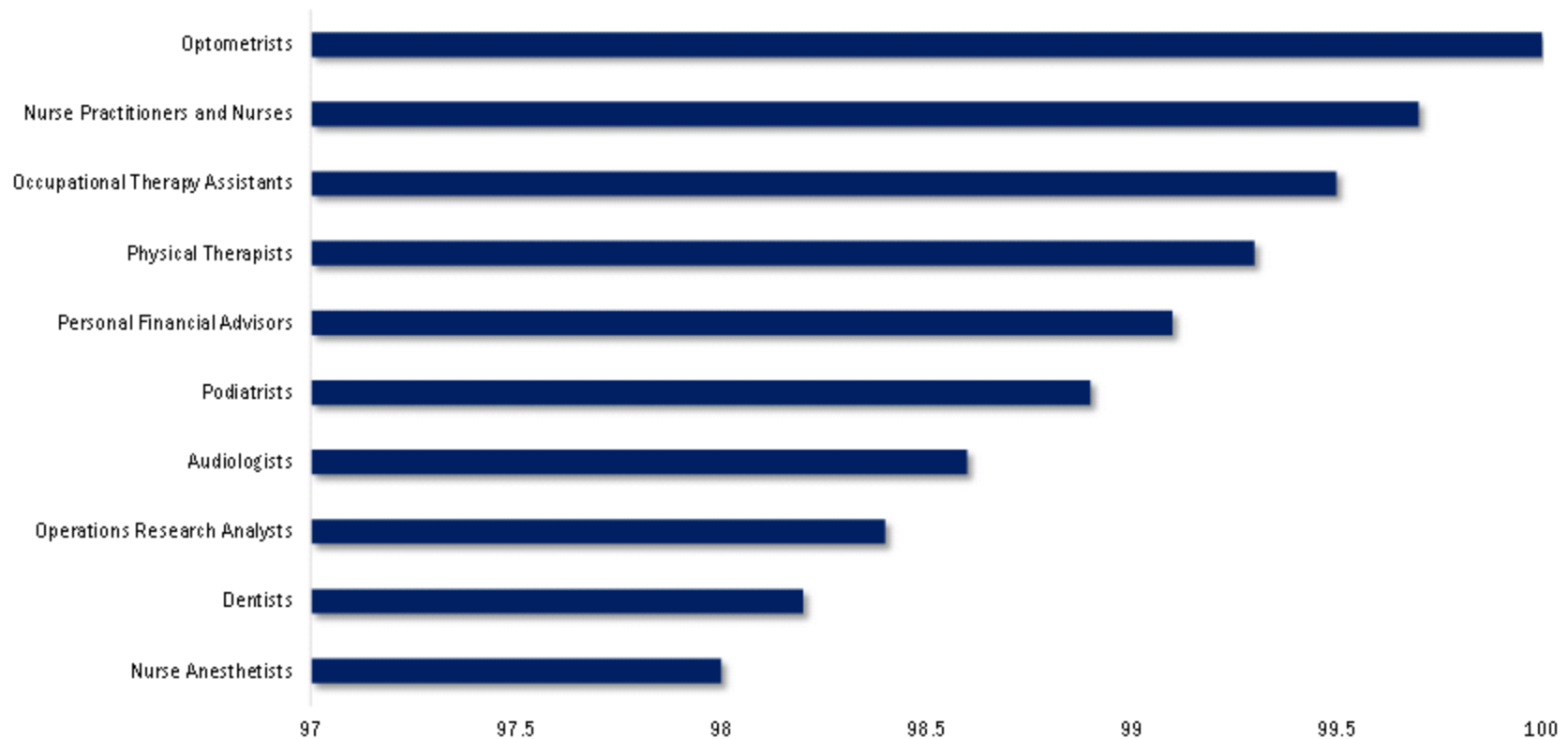
High Yield Spreads



Source: FRED.

Changing Workforce Dynamics - Businesses are finding it hard to find qualified workers

Top 10 Occupations by the Labor Shortage Index

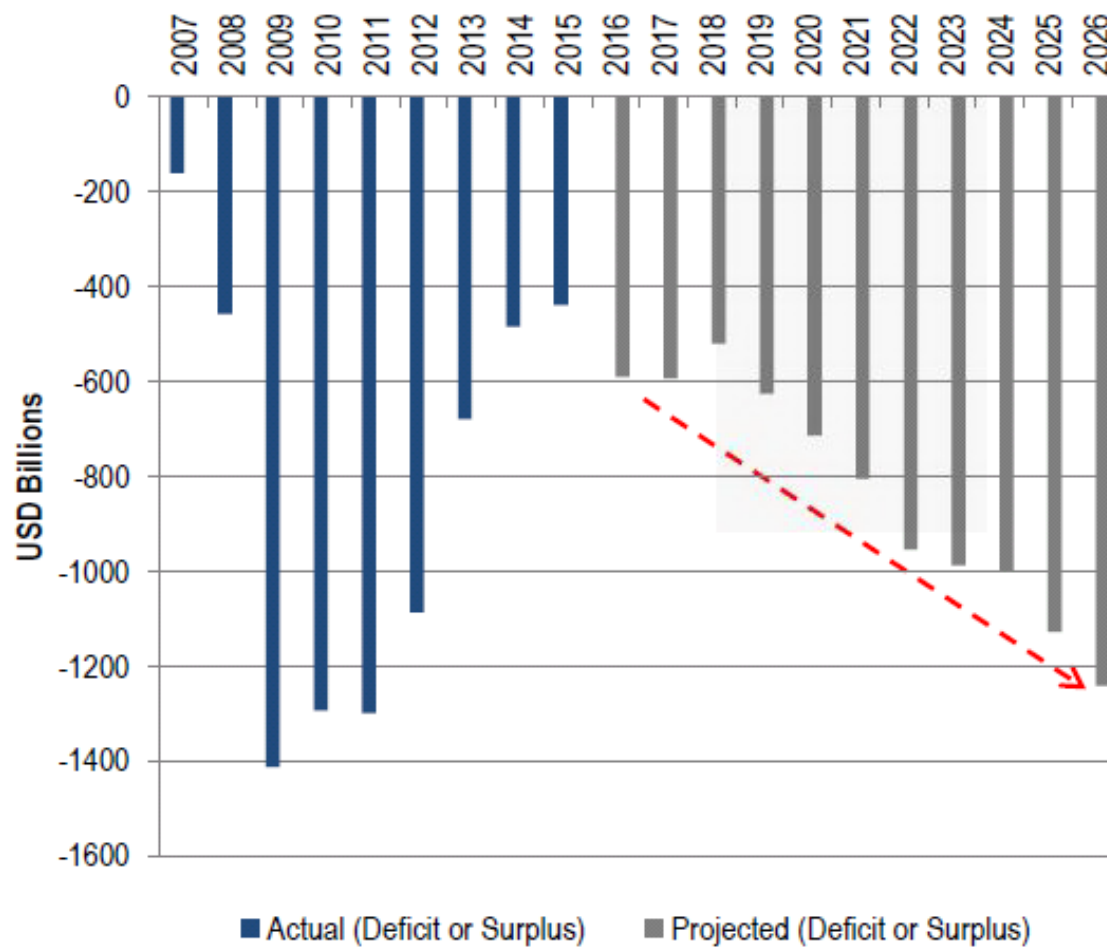


Source: The Conference Board. 2015 data.

Note: The labor shortage index is an occupation-level measure for the relative risk of labor shortages from 2014 to 2024, expressed as a percentile rank across all occupations. 0 = least amount of risk. 50 = median risk. 100 = most amount of risk.

Election – US budget deficit effects

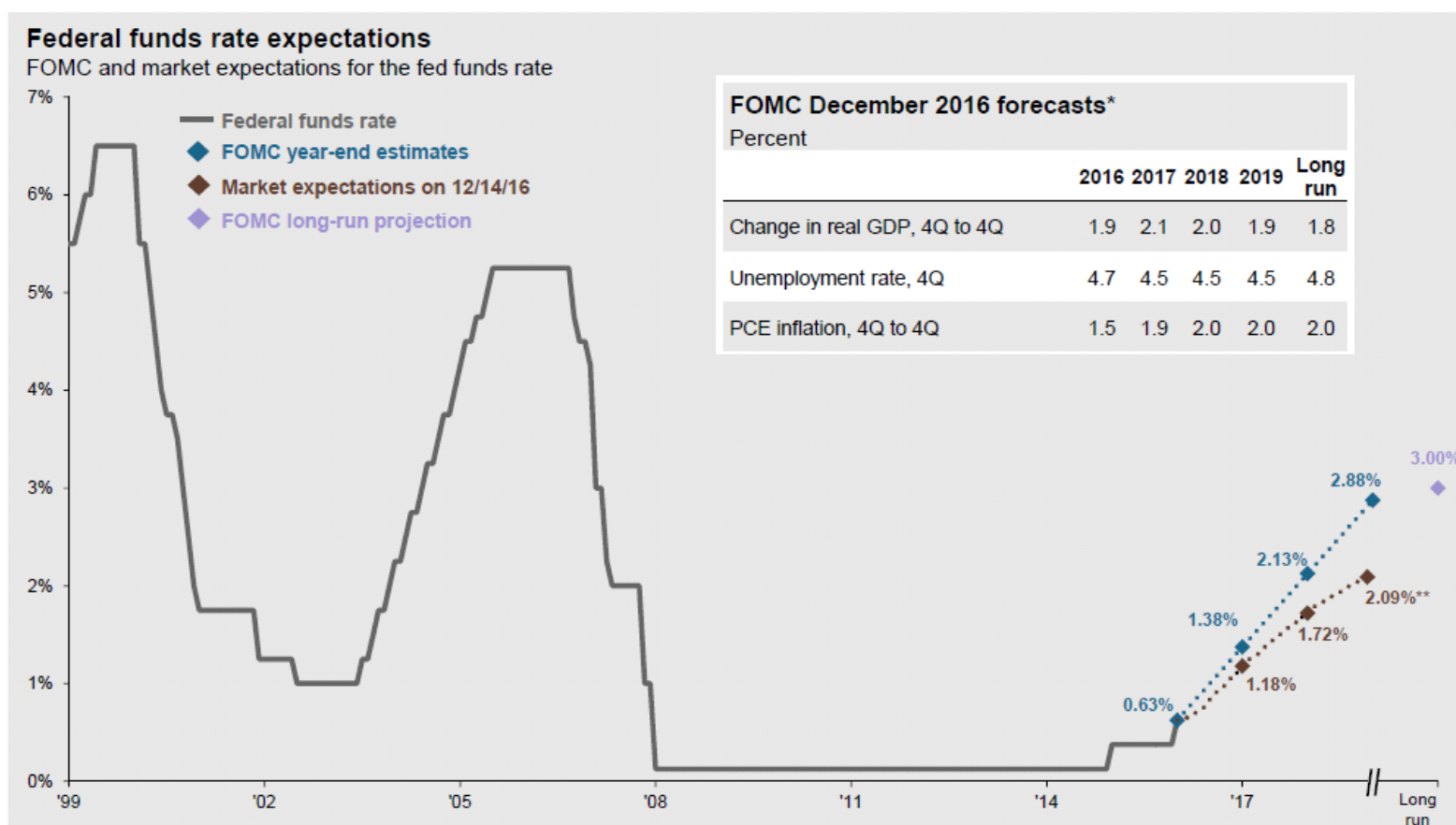
Budget Deficit Expected to Grow



Source: Congressional Budget Office Estimates via November 2016 Deep Dive, Neuberger Berman.

But No Dramatic Rise in Interest Rates Expected

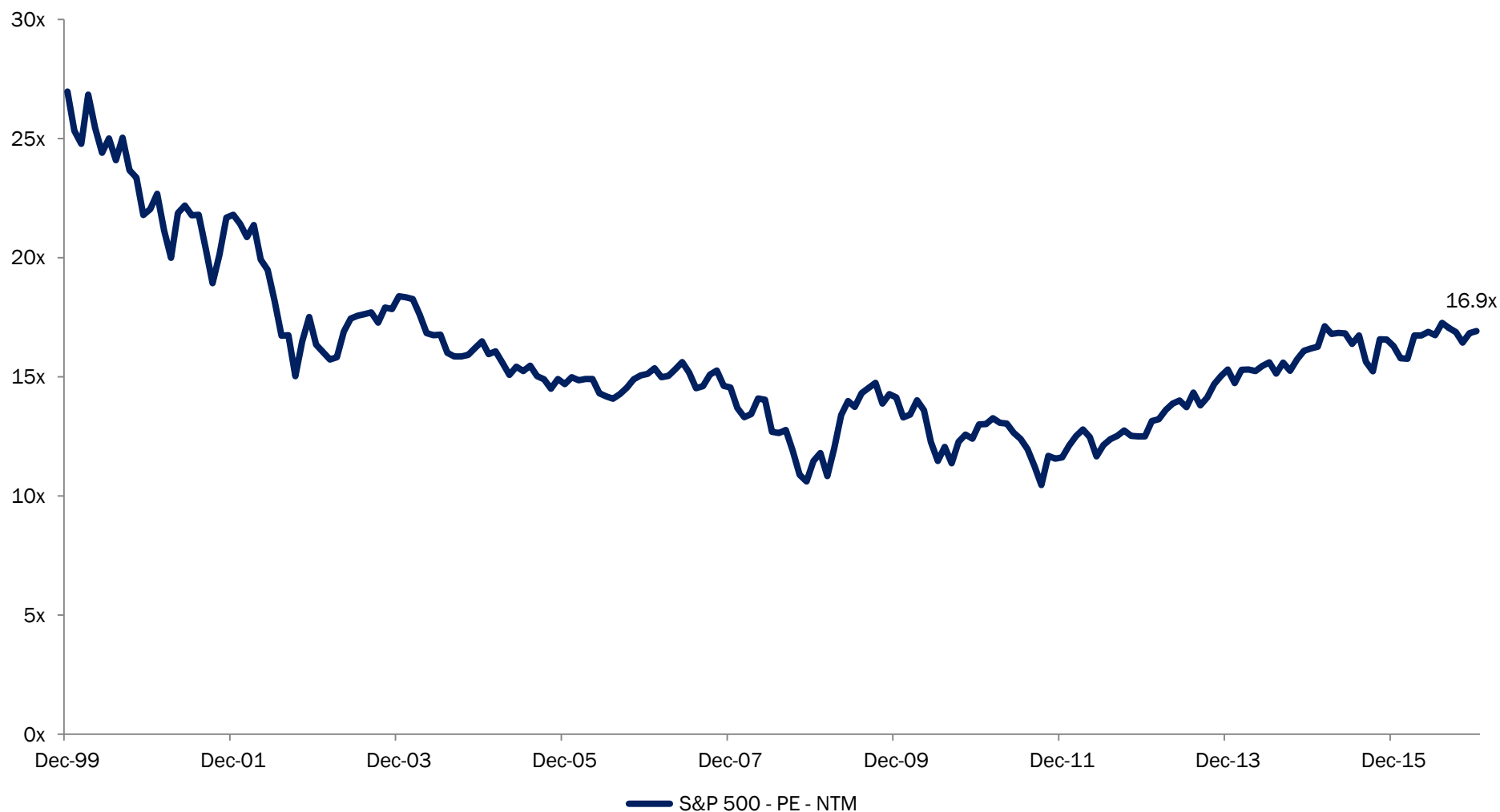
The Fed's Forecast



Source: FactSet, Federal Reserve, J.P. Morgan Asset Management.
 Market expectations are the federal funds rates priced into the fed futures market as of the date of the December 2016 FOMC meeting. *Forecasts of 17 Federal Open Market Committee (FOMC) participants are median estimates. **Last futures market expectation is for November 2019 due to data availability.
 Guide to the Markets – U.S. Data are as of December 31, 2016.

US Equities - Valuations continue to expand

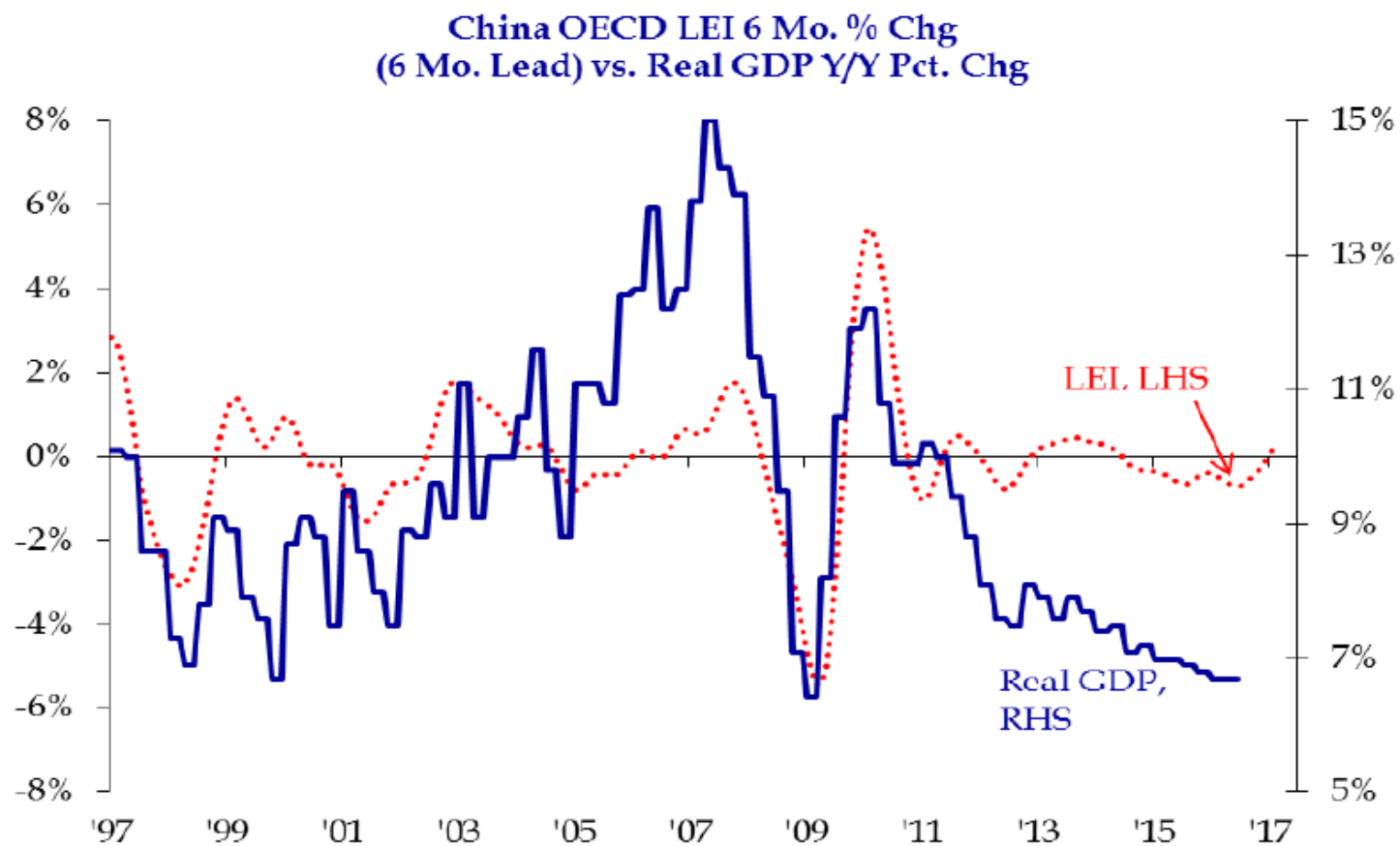
Forward P/E



Source: FactSet as of 12/31/16.

China - A soft landing

GDP vs. Leading Economic Indicators



Source: Strategas.

EM Markets - Historically, the effects have been short-term from tightening

EM Equities & the Fed

EM equities' historical response to Fed rate hikes depends on time horizon, dollar performance and economic growth

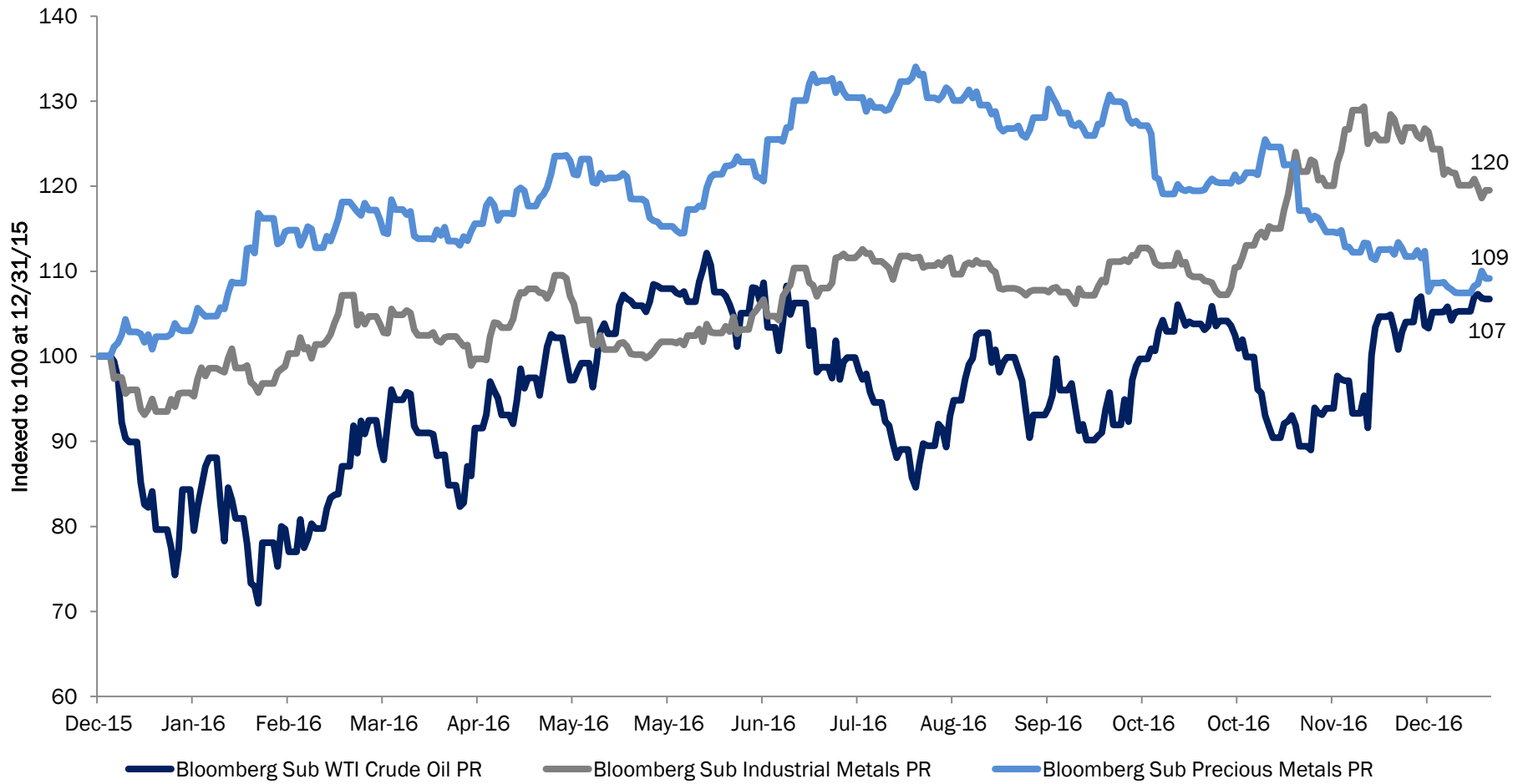
EXHIBIT 3: EM EQUITIES PRICE RETURN BY RATE HIKE CYCLE

EME Price Return	1 Week After First Rate Hike		1 Month After First Rate Hike		6 Months After First Rate Hike		Over Tightening Cycle (annualized)	
	Local	USD	Local	USD	Local	USD	Local	USD
1994-1995	2.2%	0.5%	-2.2%	-7.4%	17.6%	-5.2%	0.2%	-23.6%
1999-2000	4.5%	4.2%	-1.7%	-2.4%	19.9%	18.3%	12.9%	8.0%
2004-2006	0.0%	0.9%	-1.1%	-1.2%	17.2%	25.9%	28.6%	33.7%
"Taper Tantrum"	-1.3%	-2.6%	-10.4%	-14.1%	-	-	-0.2%	-2.4%

Source: MSCI, J.P. Morgan Asset Management. EME returns are based on the MSCI Emerging Market Index. Period 1994-1995: 2/3/1994 - 3/28/1995. Period 1999-2000: 6/29/1999 - 6/28/2000. Period 2004-2006: 6/29/2004 - 8/8/2006. Taper tantrum: 5/21/2013 - 9/19/2013. Data are as of August 21, 2015.

Commodities – Industrial metals pricing picked up in Q4

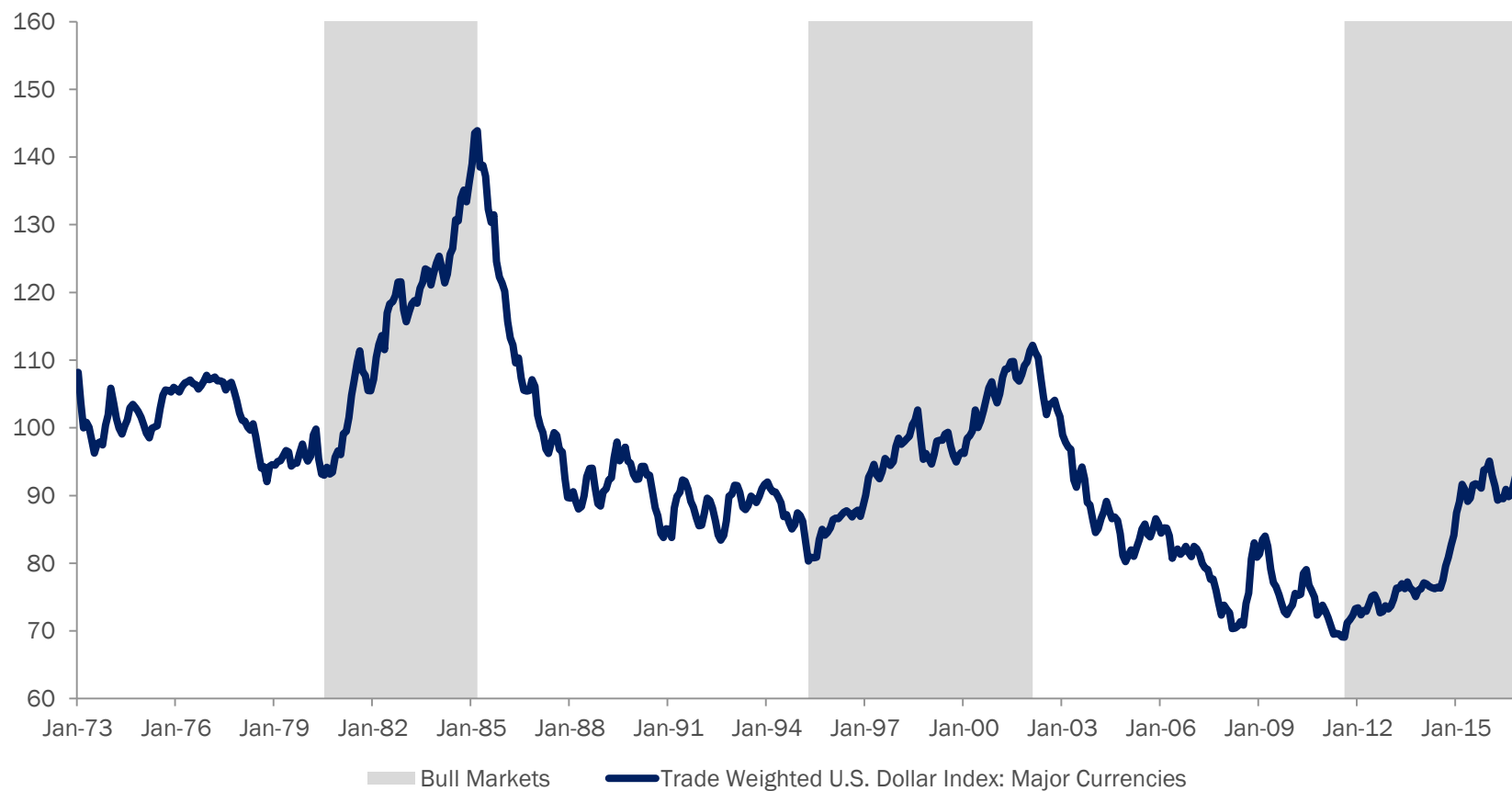
Commodities in 2016



Source: Morningstar Direct, as of 12/31/2016.

The Dollar – Bull markets are lengthy affairs

Dollar Index- Major Currencies



Source: FRED.

Corporate Debt Default Risk – Robust bond issuance a risk for future default rates

US Corporate Issuance



Source: sifma.

Important Information



Benjamin Pace
Chief Investment Officer

Ben is the Chief Investment Officer and Head of the Investment Committee. Prior to joining HPM Partners, he was Chief Investment Officer and Head of Global Investment Solutions for Deutsche Bank Private Wealth Management in the U.S. Ben has more than 25 years of experience in investment management. Prior to joining Deutsche Bank in 1994, he managed equity income funds for two investment organizations.

Ben has been featured in the *Wall Street Journal* and *Reuters*, and is a frequent commentator on Bloomberg TV and radio, Fox TV and CNBC, appearing regularly on network programs such as *Power Lunch*, *The Closing Bell*, *Squawk Box*, and *Worldwide Exchange*.

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