DANDA TROUVÉ
INVESTMENT MANAGEMENT
Money Managers You Can Trust

January 2017 Thoughts and Insights

We would like to start 2017 with wishes of health, peace and prosperity to you and your families!

What a year! As 2016 began, the financial markets were dominated by fears of recession and deflation, and investors were uneasy with the Fed's December 2015 rate hike. In fact, by February 2016 the equity markets had dropped by -10% and oil was predicted to drop below $20 per barrel. In response, global central banks continued their stimulus policies, liquidity improved, and labor markets strengthened, all leading to modest economic growth. The stock market indices then rose through most of the rest of the year, and rallied strongly following the presidential election.

As for the bond market, the yield on the 10-year US Treasury bottomed at 1.37% on July 8th and has climbed more than 100 basis points since then. We believe this low marked the bottom, and rates will continue to rise as we look forward. In fact, Fed policy has shifted as the central bank hiked rates this past December, and plans to raise rates 2-3 more times in 2017.

Of course, the global political environment changed markedly. The Brexit vote, Donald Trump's election, and the Italian constitutional referendum all point to a world that is increasingly rejecting globalization and growing more nationalistic and protectionist.

Looking to 2017, we believe that many of the trends from 2016 will shift in 2017.

- Economic stimulus that was driven by monetary policy will now be driven by fiscal policy.
- Fears of very slow growth and deflation have been replaced by improving growth expectations and rising inflation.
- The Fed has moved from dovish (no inflation) to more hawkish (increased inflation) and will raise rates.

The election results may bring significant changes to tax, trade, immigration, and regulatory policies, which will most likely produce a high degree of uncertainty and volatility.

Despite these numerous unknowns, there are things that we do know that we can invest around.

- Fed rate hikes are good for financials. Banks, brokers and finance companies do well in a stronger US economy with better loan growth and reduced bankruptcies. However, mortgage and housing industries may see reduced activity.
- The dollar will continue to strengthen which will give small cap equity earnings advantage over large cap multinationals. Tax cuts will also help smaller companies and stimulate growth.
- Dollar strength will also favor US markets over international and emerging markets.
- The markets are constructive for energy stocks as OPEC is moving back into balance combined with Trump's pro US energy independence stance.
- As rates rise, corporate bonds are favored over treasury bonds. Also, US, UK, and EU bank bonds should fare well as bank balance sheets strengthen.

We maintain our conviction to be fully invested in equities over the longer term, however, we are prepared for the possibility of short term volatility. On pull backs, we plan to ensure that the portfolios are fully positioned in financials. We also plan to add small cap exposure to our portfolios. In turn, we may reduce any remaining exposure to emerging markets and take advantage of the recent rally in energy to bring the exposure back from an over-weight to equal weight in many portfolios.

As for fixed income, we are very pleased to enter a rising rate environment. Many of the securities we have purchased over the past 8 years have short maturities and will be called or mature soon. We plan to re-invest at higher rates. We eliminated our exposure to emerging market debt a few years ago, and do not plan to re-enter at this point.

As always, we remain dedicated to serving your investment needs according to your goals. Please call or write with any questions or concerns you may have.

Michelle & Jim