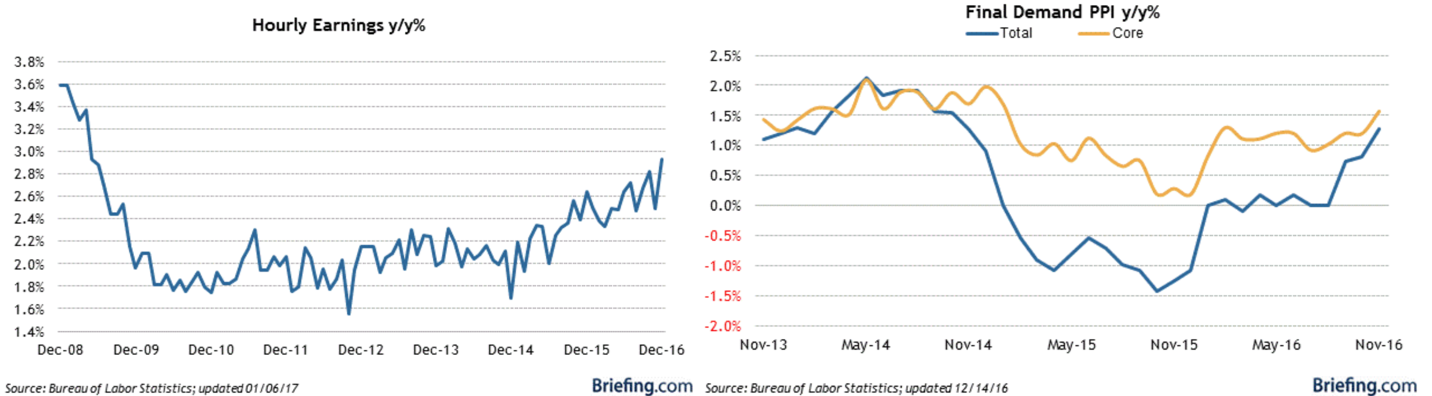
JUNCTURE
WEALTH STRATEGIES

Make America Pay Again!

1/6/17

There are many uncertainties surrounding the incoming administration's intended policies, how successfully they will be implemented, and what the longer-term, second and third order ramifications will be of those measures put into place. One area where there is little uncertainty is in the realm of inflation. Inflation is here, it is rising, and it may surprise many to the upside given how complacent we have become about this issue during the past several years of deflation and disinflation.

Hourly Earnings & Producer Price Index YOY % Changes Have Increased Upward Pace



<u>"Investors should focus less on the S&P and more on P&S"</u>

The S&P 500 has risen over 230% since its bottom in 2009. By several measures, the U.S. stock market is more expensive than it has been for approximately 80-90% of its history. For many of those measures which still indicate an "inexpensive" or "fairly-priced" S&P 500, they adjust for the low interest rate/low inflation environment we have enjoyed since the financial crisis recovery began, but as interest/inflation rates rise, those methodologies will also likely indicate a vulnerable U.S. stock market. During the S&P's historic bull market run since 2009, it has outperformed most other global equity market by a wide margin largely due to the Federal Reserve's "quantitative easing" initiative, which ended a couple of years ago, and a "zero interest rate policy" which is now in the process of being normalized. The S&P's continued dominance is now much less reliable.

It is important to keep in mind, that during the beginning and end of an economic expansion, the stock market and the "real economy" do not necessary reflect each other. When the S&P 500 began its bull run in early 2009, in many ways the economy was still worsening in terms of rising unemployment, mortgage defaults and business failures. Now, if President Trump is successful in lowering taxes and regulatory burdens, the U.S. economy may markedly improve in terms of GDP, corporate earnings and wage growth. Nonetheless, investors should now focus on "P&S" ("prices/inflation" and "stability") rather than the "S&P". Even if the Trump administration is ultimately successful in its goal of "Making America Great Again", they might also "Make America Pay Again" via higher inflation, financing costs and import costs, as well as lower U.S. stock market returns if the currently prevailing stock market valuations are no longer supported due to decreased "stability" as geopolitical/trade uncertainties manifest themselves in the psyches of investors to a greater degree.

We are likely in the "give back" phase of the U.S. stock bull market. Whatever stock market gains are accrued over the next 2-4 years are likely to be "given back" during the subsequent and inevitable bear market. At present, there is little indication that a recession in the U.S. is likely in the coming 12 months, but we will continue our efforts to position the portfolios to benefit from higher levels of inflation, improved global economic activity and more attractive security valuations outside of the U.S. stock markets.

Disclaimer: This commentary is provided to you for informational purposes only. Any specific firm or security presented should not be construed as an endorsement or recommendation by Juncture Wealth Strategies, LLC. No advice may be rendered by Juncture Wealth Strategies, LLC unless a client service agreement is in place. Please consult with your financial advisor before making any investment.