foothill financial
advisors

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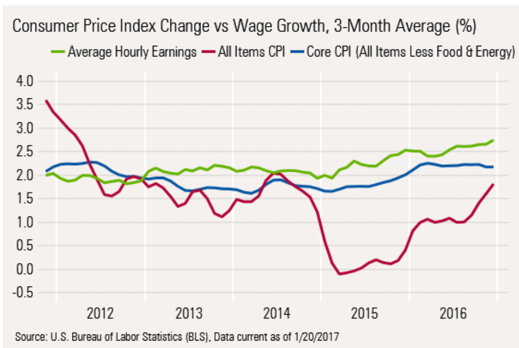
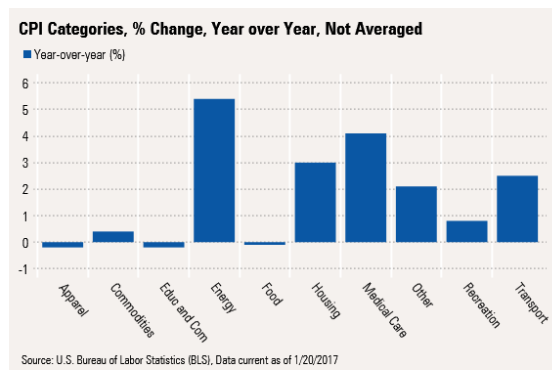
New President, New Ideas, Different Problems

Now that Donald Trump has been elected to office, what changes can we expect? Under consideration are taxes, healthcare, financial regulations, and energy to name a few. These changes in the economy will present different challenges to the market.

For the last 8 years, there has been a lot of talk about inflation, but it has been relatively non-existent. We feel this is about to change. We expect inflation to be around 2 – 2.8% this year. If that is true, the economy should remain stable and moving forward. As inflation moves up the price of bonds will become negatively affected, as well as more volatile. Short term bonds generally have less negative movement than longer term bonds. For that reason, you will hear that short term bonds are better in inflationary periods. If inflation ticks up to about 4%, then we could see the possibility of a recession looking forward.



There are basically two components to the economy which have a direct influence on inflation; wages and products. The cost of goods has begun to rise slightly, mainly oil prices, but these prices can also drop if circumstances change. Oil prices are up slightly because OPEC has had a production cut in place and it seems to be holding for the moment, but if it fails oil prices will drop again. Wages, on the other hand, will not drop once they have increased, and the average hourly wage has started to rise. Wages are a key indicator that inflation has begun to creep into our economy.



The Federal Reserve met in December 2016 and to no one's surprise, raised interest rate 25 basis points (a quarter of a percent) and now expect three additional hikes in 2017. They did discuss the possibility of higher inflation expectations. Both the Federal Reserve and most market analysts expect to see increased inflation next year. We agree.

We have recently restructured our investment models for 2017. As a result, we will be making adjustments to some accounts based on each client's individual risk tolerance and long term goals.

We are available to discuss any questions or concerns about the market or your portfolio. Please do not hesitate to contact us. We are here to help.

Regards,
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