

Economic Forecast for 2014: Hope & Caution

While 2014 started off on somewhat of a bumpy path with stock prices moving lower, I want to take a moment to review how we got where we are today and where we are likely headed.

First, 2013 provided positive signs on many fronts for the economy. While growth is not happening as quickly as we would like, the last quarter of 2013 was especially strong with a Gross Domestic Product (GDP) [growth rate of 3.2%](#) - led by manufacturing, construction and retail increases in most parts of the country. In 2014, economic growth is expected to continue with a predicted GDP increase of a 2.5% - moderate expansion for the remainder of the year.

Second, while the stock market started off the New Year by experiencing a 5% drop for the month of January, this was not totally unexpected. In most segments of the economy, the [stock market performed very well in 2013](#) - extraordinary gains and strong growth. That combination often sets off a market "correction" of sorts - where stock prices move lower - which is exactly what we [experienced](#) in January. In this scenario, the lower stock prices reflected a normal and healthy reaction to the rising equity markets. More about stocks and 2014 in just a moment.

There are a couple of other important factors to consider regarding our economy. The Federal Reserve (Fed) has begun the slow yet inevitable process of increasing interest rates. While the Fed begins to [taper](#) its bond buying program - cutting back on the amount of money it is pumping into the economy - it will almost certainly keep short-term interest rates anchored at zero for 2014. While stock prices are no longer cheap - and may be close to full valuation - they are still better alternatives to cash and bonds for most investors.

The artificially low rates for the last three and a half years have helped greatly to drive stock prices higher. While good for equities, this Fed action has had [a negative effect on emerging market economies](#) around the globe - such as India, Argentina and Brazil.

Some key economic stories to watch in 2014:

[Unemployment](#) is still a significant problem. It remains stubbornly high, especially when you consider the "unofficial unemployment" rate - the hundreds of thousands of Americans last year who dropped off the unemployment rolls because they gave up looking for work.

As we approach mid-term elections in November of this year, the [political posturing](#) will be in high gear on both sides. Without question, the political battles will impact our economy. The ongoing debates over national health care, the budget, and the debt ceiling will only intensify in 2014.

Bottom line: Economic growth will most likely be positive for 2014. We remain cautiously optimistic as the year unfolds. Stock prices - although likely to experience much more volatility than in the past several years - will most likely continue to produce modest gains for the remainder of 2014. Our investment advice? In general, stay the course.

At Kapusta Financial Group, you remain our top priority. We will continue to provide you with updates and information in 2014 and closely monitor your portfolio. As always, it is an honor and privilege to serve you.

If you have any questions or concerns, please don't hesitate to contact our office.

Sincerely,

George