2016 OUTLOOK: PART 1
February 25, 2016

It is no secret that the beginning of 2016 has been a bumpy ride. For two months the world's stock markets have been experiencing a major downturn. Global growth is slowing with some countries experiencing mild recessions. The U.S. stock market has already taken a toll on investors as the Federal Reserve continues its debate on interest rate hikes. The following is a breakdown of current events and our outlook for the remainder of the year.

U.S. ECONOMY

Much has been written since the beginning of the year about the volatility and price declines experienced in our stock market. While certainly newsworthy, the volatility of the markets amounts to a normal correction, not a collapse. Despite this volatile movement, the U.S. economy and its growth will play a larger than normal role in keeping the world economy afloat.

Consumer Spending: A powerful component to how well our economy weathers the global slowdown and worldwide market correction is U.S. consumer spending. Considering that consumer spending comprises about 85% of U.S. Gross Domestic Product (GDP), it’s safe to say that consumers are the engine of the economy – when their spending is low, businesses feel the pinch. December's numbers showed that consumers didn't pull back, as feared, during the holidays with retail sales rising slightly over the previous year. More importantly, U.S. consumers showed signs of strength in January, taking advantage of lower oil prices.

Home Sales: Housing is not only an important sector in the economy, but also a diversified and highly regional industry. Home prices nationally in many markets have climbed back to prerecession levels. This trend, as well as historically low mortgage rates, is projected to continue throughout 2016. Sales of existing homes slowed sharply at the end of 2015, but that statistic belies an underlying ray of hope; there are nearly one million fewer home owners under water with their mortgage position in 2015 than there have been in previous years. Overall, housing is a bright spot for the U.S. economy.

Manufacturing: The continued decline of manufacturing activity is an obvious weakness of the U.S. economy, which is a carryover from the third and fourth quarter of 2015. U.S. factory activity, which comprises approximately 15% of U.S. GDP, fell to its lowest level since the recession at the end of 2015. The strength of the dollar is hurting exports, while U.S. corporations remain hesitant to deploy funds for new projects and equipment. Consequently, the slowdown in manufacturing put a damper to a rise in new jobs. This trend looks to continue throughout the remainder of 2016.

Oil: Probably the most stunning revelation of the global slowdown has been the unexpected huge drop of the price of crude oil. The price of a barrel of oil has declined almost 80% over the last 12 months - this has been a historical drop by any measure. This fact coupled with the abnormal 98% correlation (normal correlation between oil and stock prices is around 25%) between oil and stock prices since the beginning of January has certainly been a driving factor for our markets' volatility the past two months. We don't see the price of oil in a continued free fall throughout the remainder of the year. Our estimate is a slight price increase by midsummer.

110 Fort Couch Rd., Suite 108, Pittsburgh, PA 15241
Tel: 412.851.1400 | Fax: 412.851.1403 | Email: kfg@kapustafinancial.com