KAPUSTA FINANCIAL GROUP

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President- Elect Trump – And the Trump Rally

There has been plenty of forward momentum in the U.S. equities markets since the election of Donald J. Trump as 45th president. Overall, the S&P 500 Stock Index has gained 2.8% since election day. Wall Street is certainly betting on a stronger economy and bigger profits for many U.S. companies if the president-elect's economic plans are implemented. However, investors should not get too excited about the short-term market movements that we've been observing. It's not the candidate that matters most to the market's performance, it is policy. From where we sit, there is no policy - only campaign proposals. The market is trying to anticipate some of the big changes *expected* to take place under the Trump administration, but the smart money in our view is staying on the sidelines until we see more definitive action. We are very bullish on many of Trump's proposed economic policies, but currently feel markets are on thin ice.

These are tricky times as we are very late in the economic cycle. The economy has been very slow, the stock market's valuation is historically very high, the bond market is in a bubble, and the Federal Reserve seems destined to raise rates next week and potentially three more times in 2017. The problem is that the equity markets have been pushed to these lofty valuations over the last several years mainly by the support of the Federal Reserve's zero interest rate policy. It's our opinion that increasing interest rates at this point is going to prime the re-set button for downward stock prices and bond valuations in the near-term future. Trump's proposed economic policies are generally viewed as positive for growth but also inflationary. Hence, U.S. bond prices have declined over $1 trillion in value and the global bond market has lost nearly 4% of its value since election night. Generally, when interest rates are falling or are low as they are today, it is bullish for stock prices and vice versa. A few weeks ago, the four major stock indexes all closed at a new high on the same day. This hasn't happened in almost 17 years since December 31, 1999. Most investors haven't forgotten the massive decline that happened to the NASDAQ in March of 2000 and the broad equity markets in the fall of 2000.

Lurking in the middle or the back pages of the financial news is the current state of affairs in China. The world's second largest economy continues to slow. More money each month is leaving the Chinese economy and finding its way into other foreign markets. Last year stock markets in China escalated to nose-bleed levels only to deflate in a panicked crash. Now their biggest bubble is in housing. China's debt is approaching 330% of their GDP driven by massive speculation in real estate. The Chinese currency is down about 10% in the last two years. The U.S. markets are currently not focused on this

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China issue, but it is very negative. The Chinese continue to cover up bad debt in their economy with more debt (flooding the economy with more currency).

Next year is certainly going to prove to be very interesting in many respects. President-elect Trump and the Republican Congress are likely to enact big changes in government policy. History tells us that this is not a painless undertaking - either for the financial markets or the consumer. There's a clear fork in the road looking at the road map for the stock market for 2017. One path takes us back to the very high valuations of the late 1990's while another path (re-set of stock and bond prices of perhaps 20% or more) takes us back to normal valuations based upon solid economic data and not Federal Reserve policy. To us the message is clear; we expect a good dose of volatility in the financial markets during the first few quarters of the new administration.

As always, we at Kapusta Financial Group, want to thank you for the trust you continue to place in our team.

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