

# 2017 Market Review & Outlook

February 2, 2017

# Market Review & Outlook



Jason O. Jackman, CFA  
President & Chief Investment Officer

# Economic Outlook



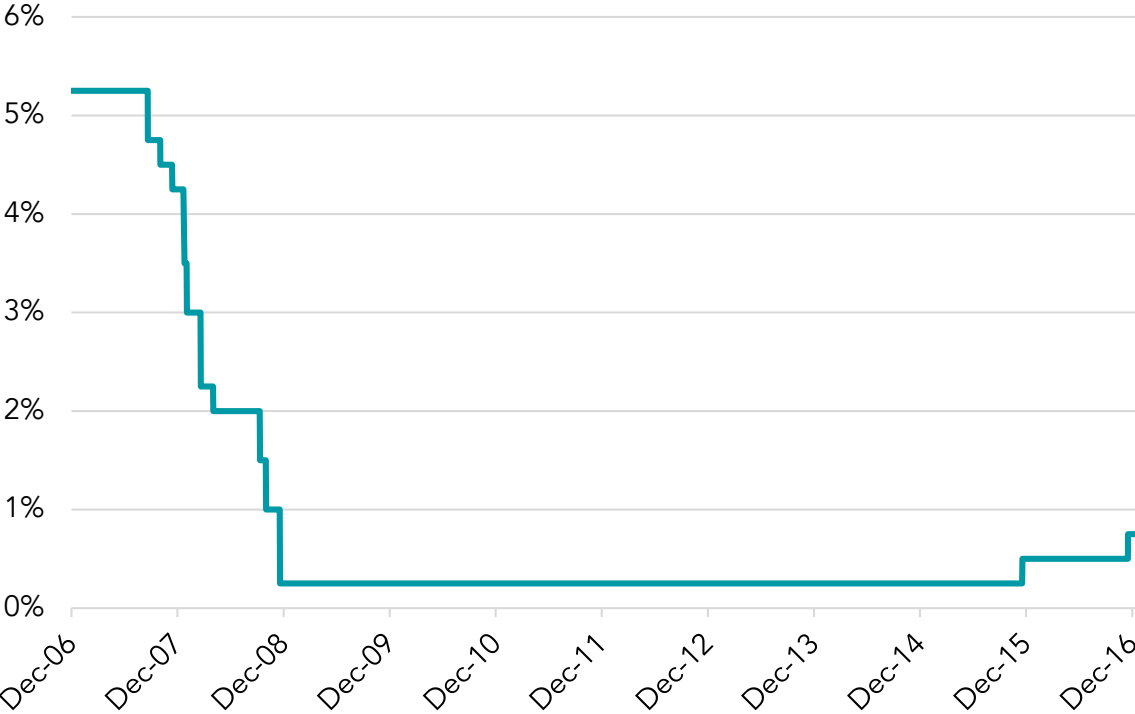
Brandon A. Zureick, CFA – Portfolio Manager & Strategist  
Dale H. Coates, CFA – Vice President & Portfolio Manager

# The Recovery In Context

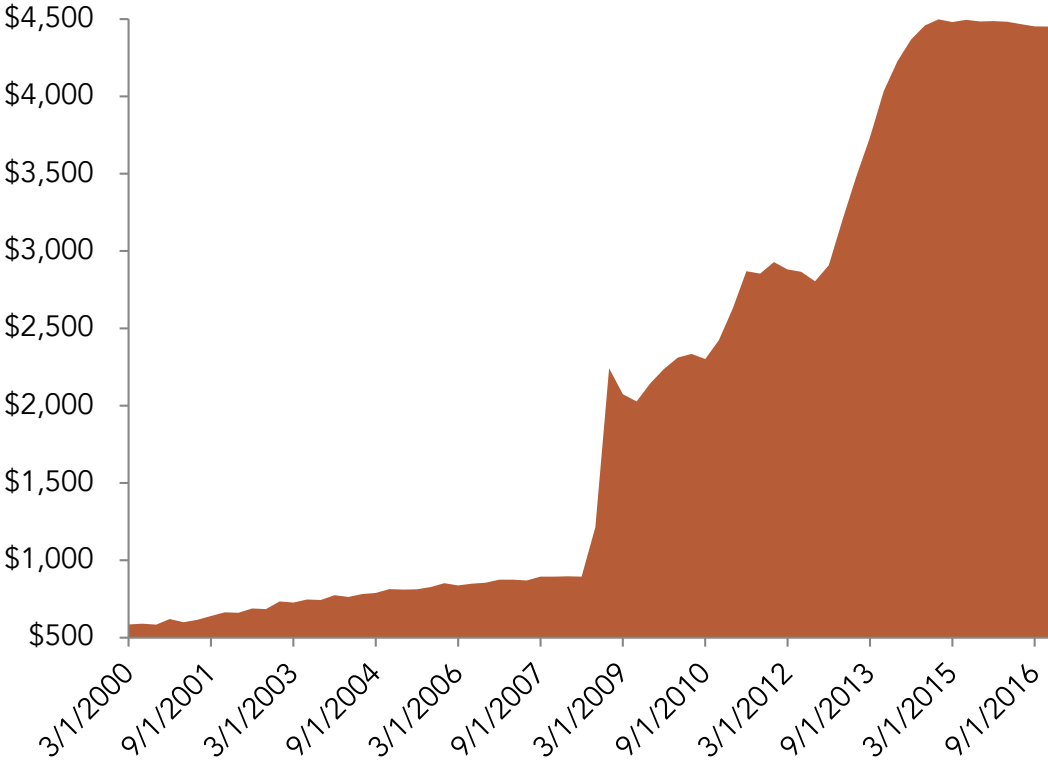
Beginning Date	Ending Date	% Gain	% Gain / Annum	Months
Oct-49	Jul-53	28.6%	6.9%	45
May-54	Aug-57	13.6%	4.0%	39
Apr-58	Apr-60	11.5%	5.6%	24
Feb-61	Dec-69	52.0%	4.8%	106
Nov-70	Nov-73	16.0%	5.1%	36
Mar-75	Jan-80	23.3%	4.4%	58
Jul-80	Jul-81	4.4%	4.4%	12
Nov-82	Jul-90	38.4%	4.3%	92
Mar-91	Mar-01	42.6%	3.6%	120
Nov-01	Dec-07	18.0%	2.8%	73
<b>Jun-09</b>		<b>17.4%</b>	<b>2.1%</b>	<b>91</b>
Mean		23.9%	4.4%	61
Median		18.0%	4.4%	52

# Remarkable Monetary Policy Effort...

### Fed Funds Target Rate (%)

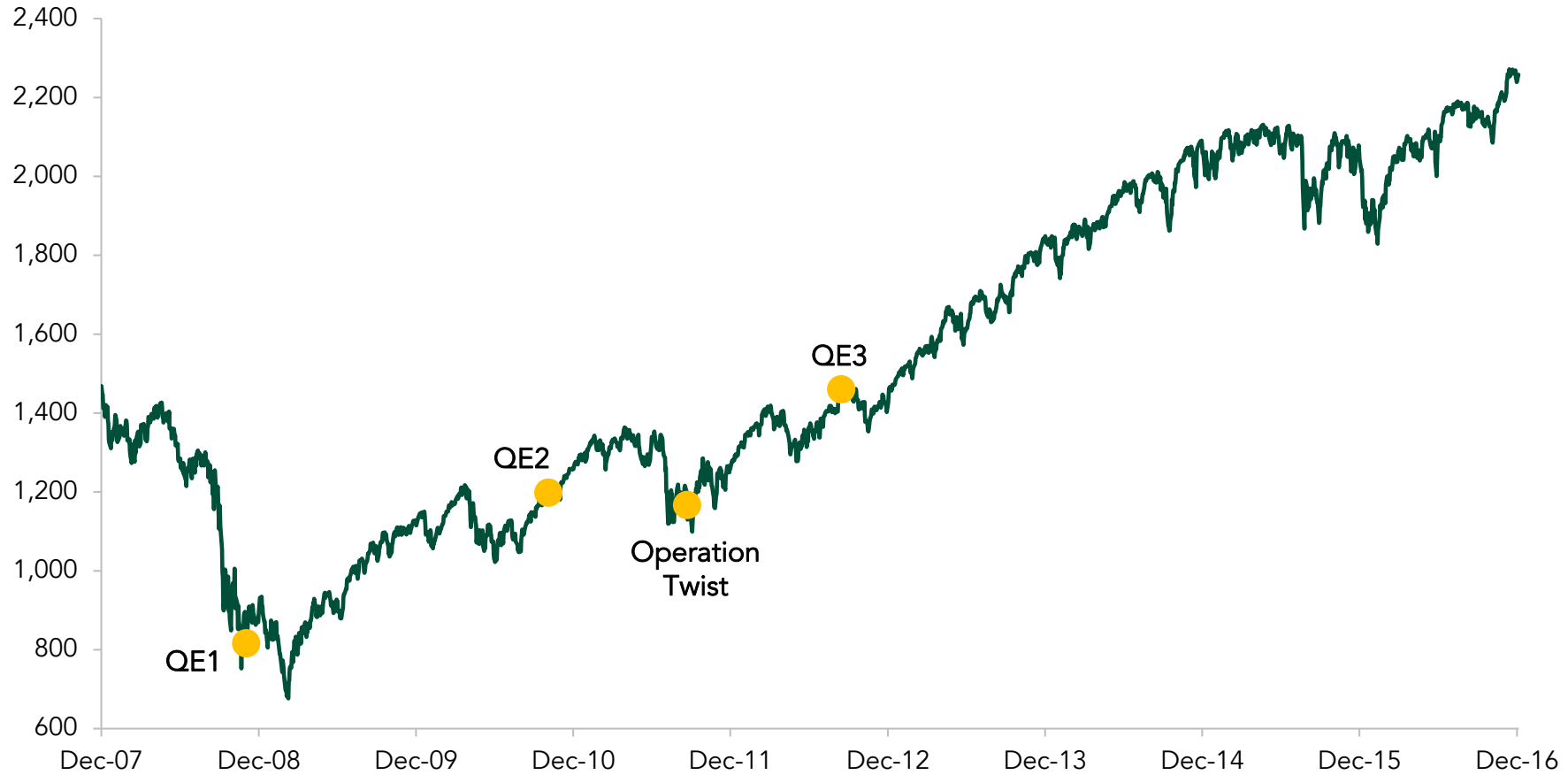


### Federal Reserve Balance Sheet (Billions)



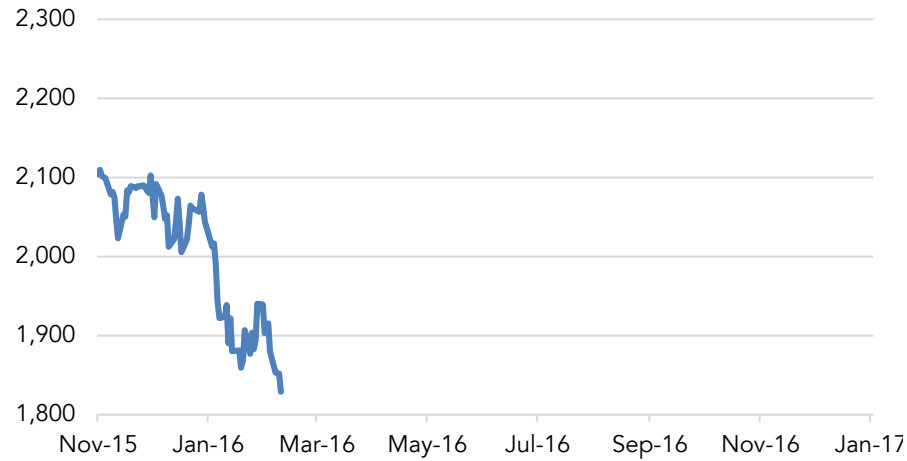
# ...Has Fueled the Stock Market

S&P 500 Index

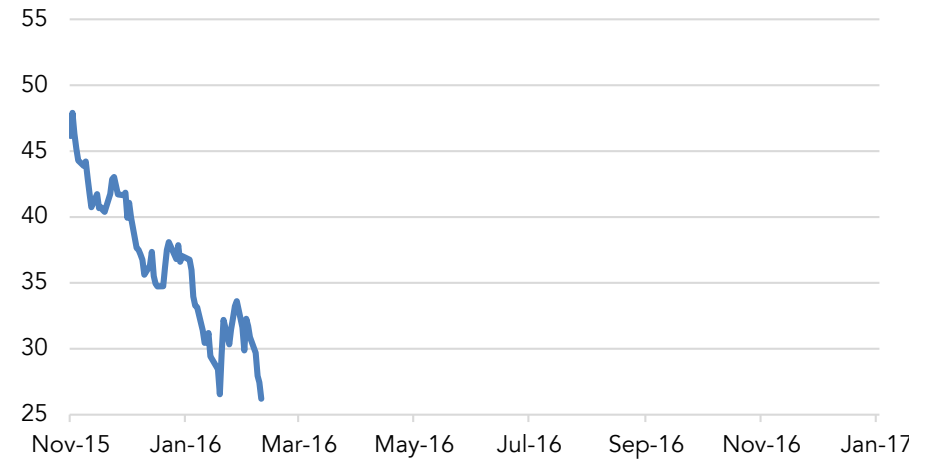


# A Year of Transition: Phase 1 – Economic Pessimism

### S&P 500 Index



### Crude Oil



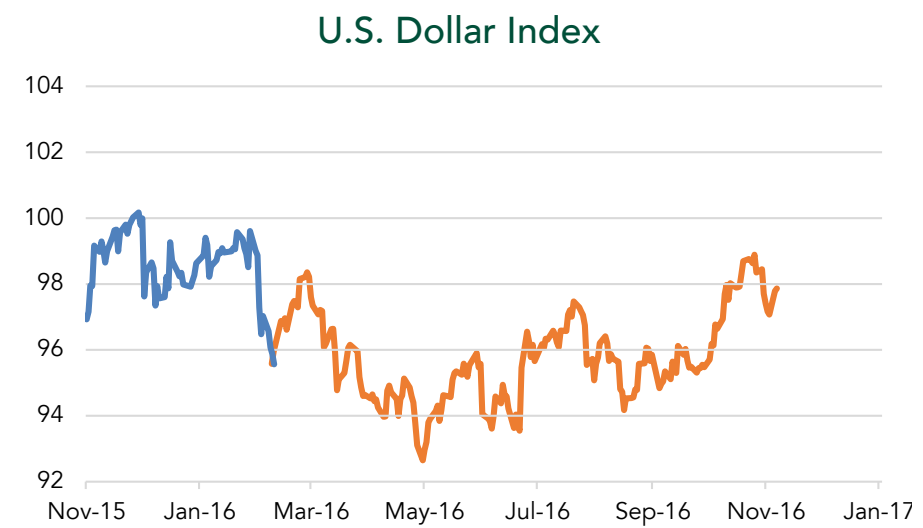
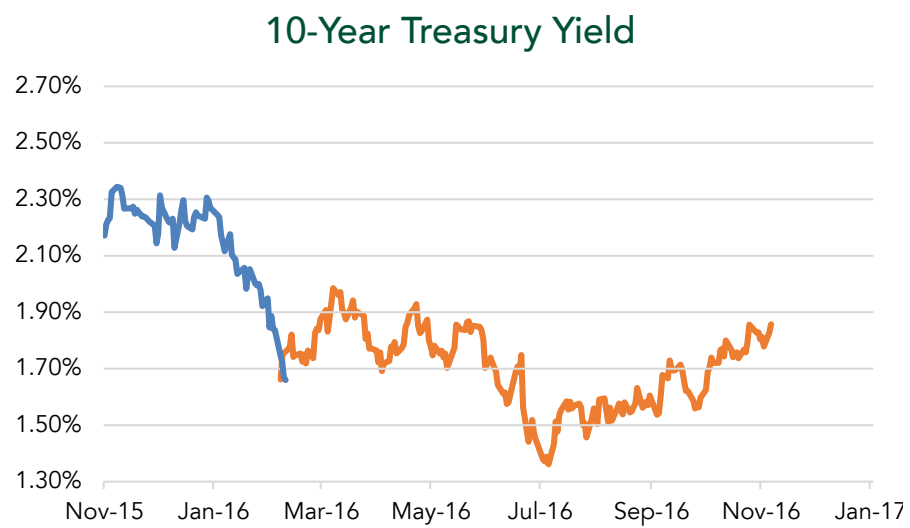
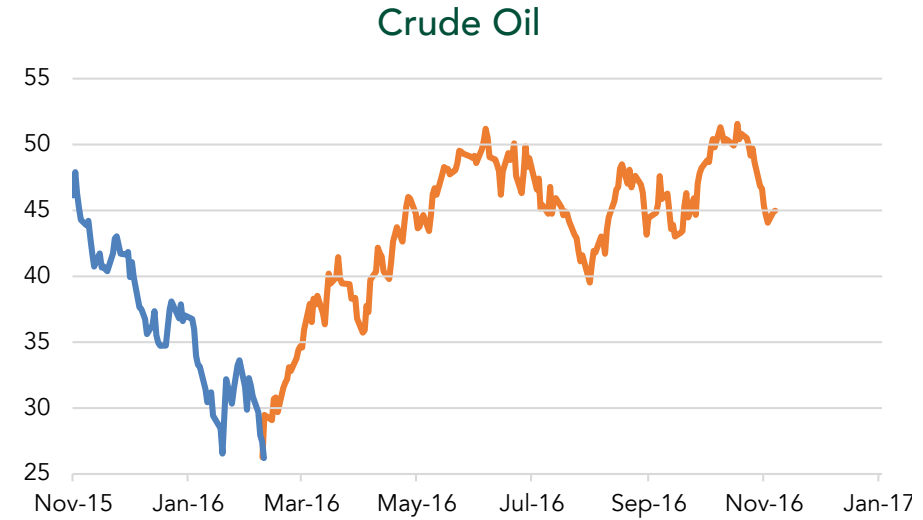
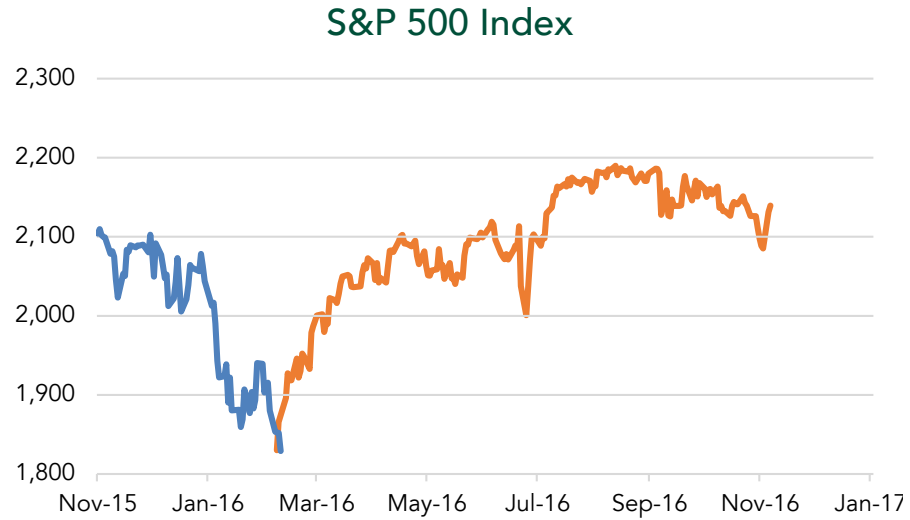
### 10-Year Treasury Yield



### U.S. Dollar Index

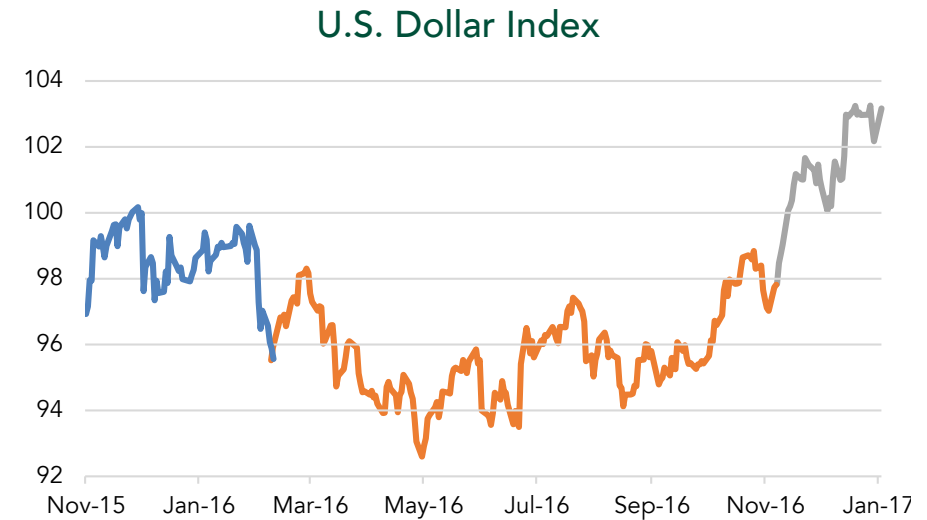
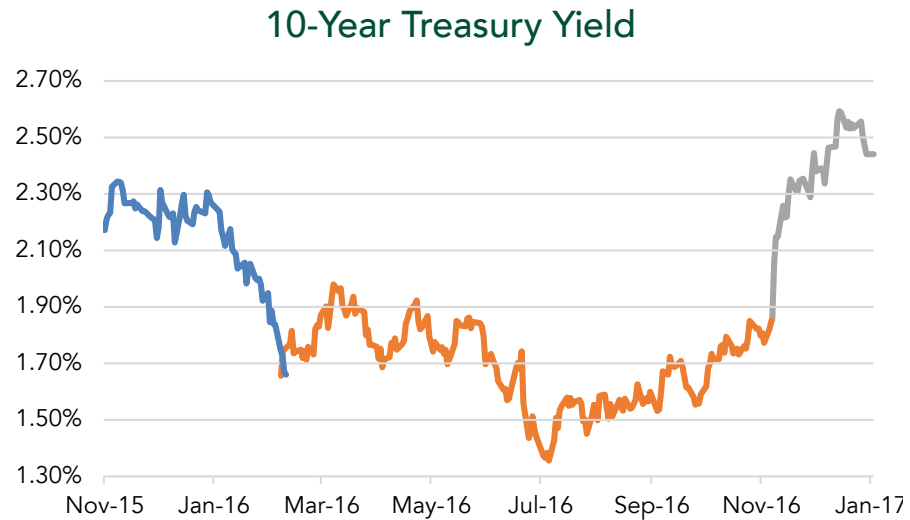
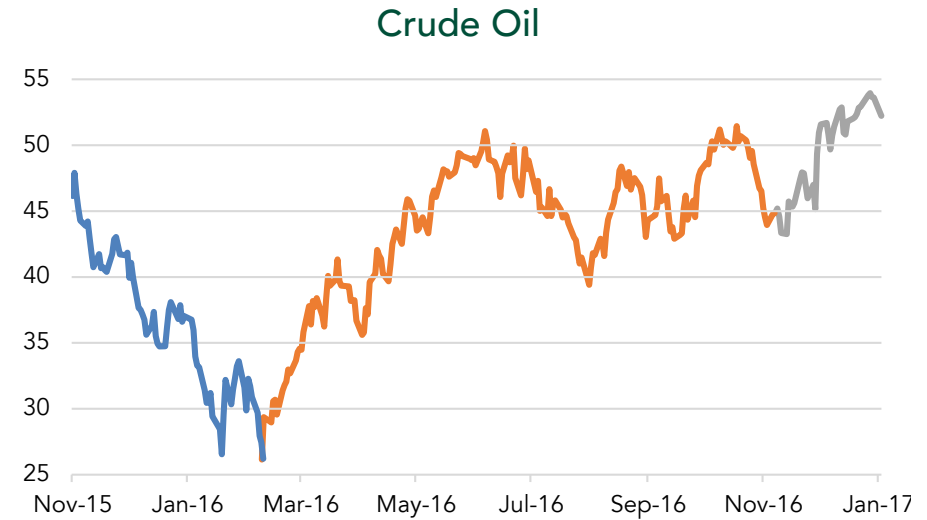
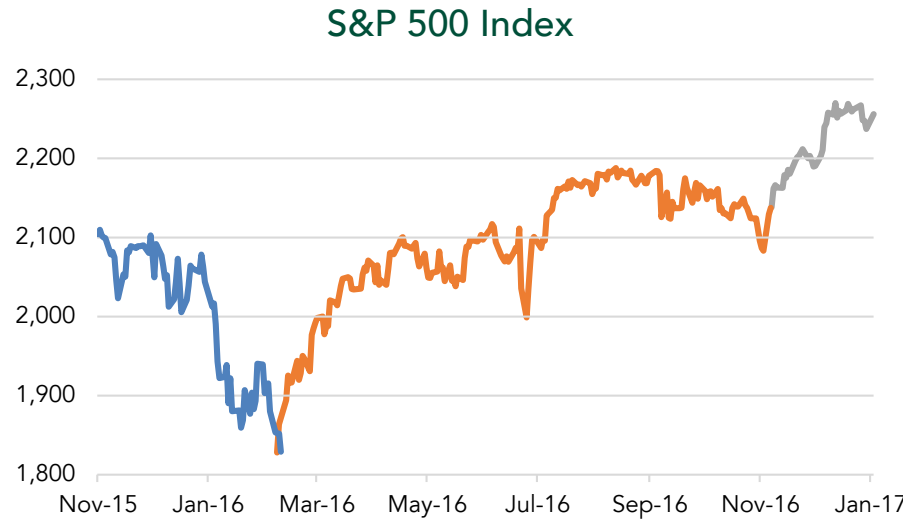


# A Year of Transition: Phase 2 – Recovery and Stability



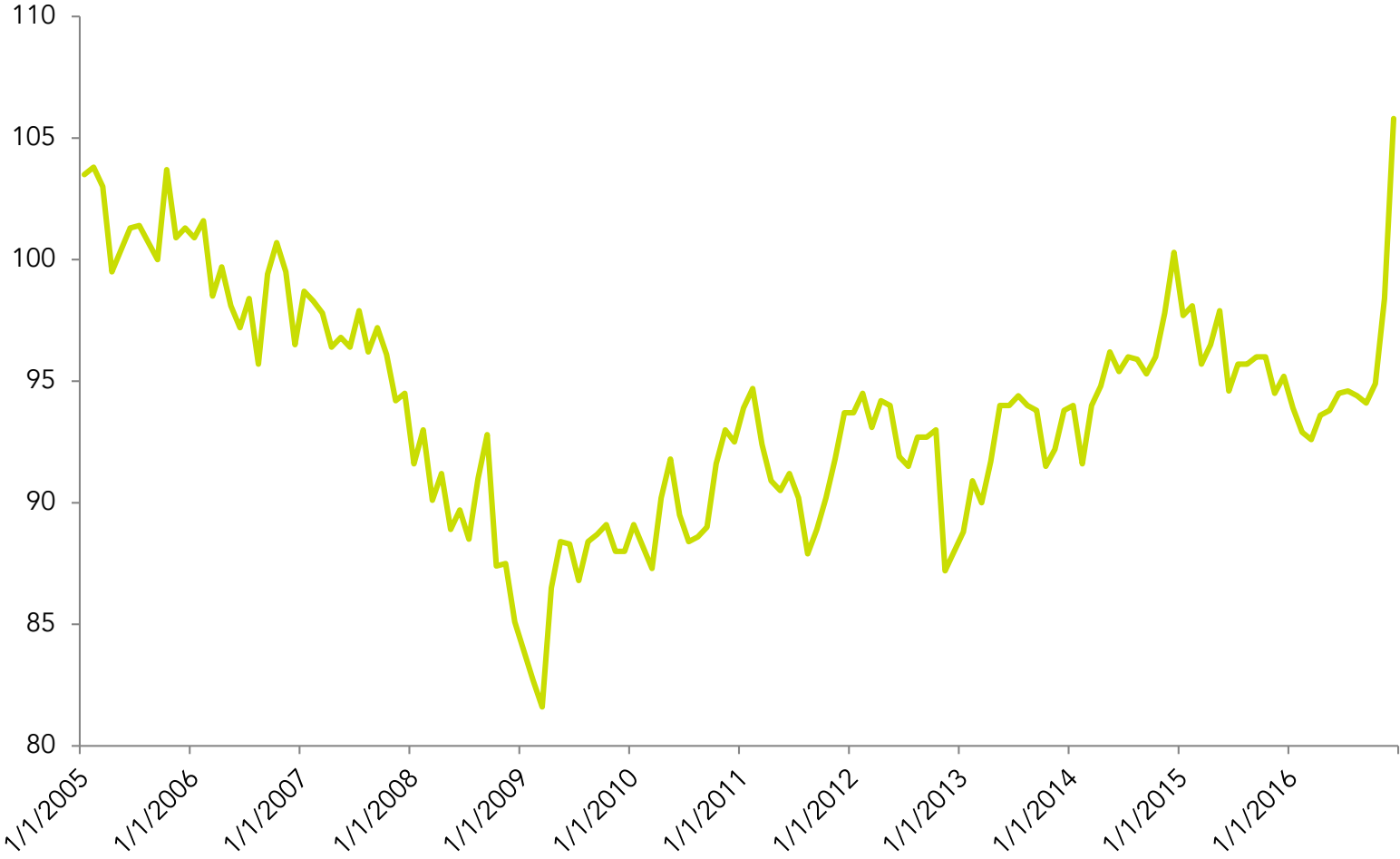


# A Year of Transition: Phase 3 – Economic Optimism



# Post Election Surge in Optimism

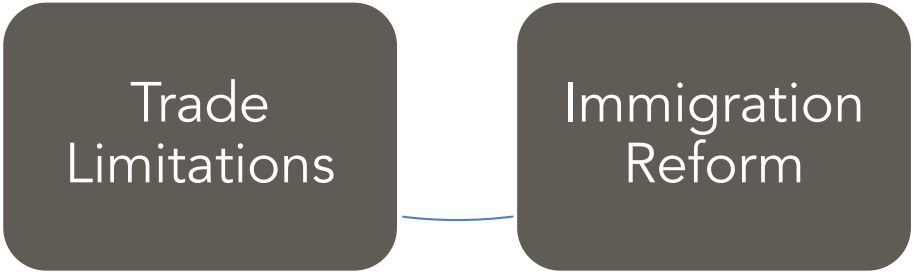
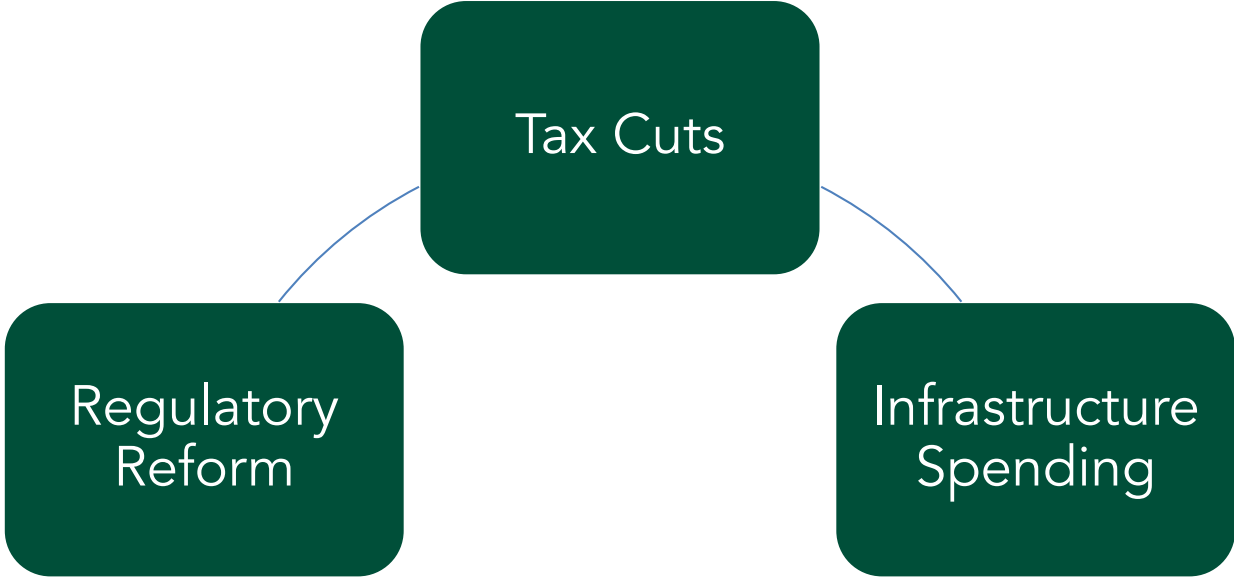
## Small Business Optimism Index



► Source: Bloomberg, National Federation of Independent Business

# Policy Proposals

**Pro-Growth Proposals**

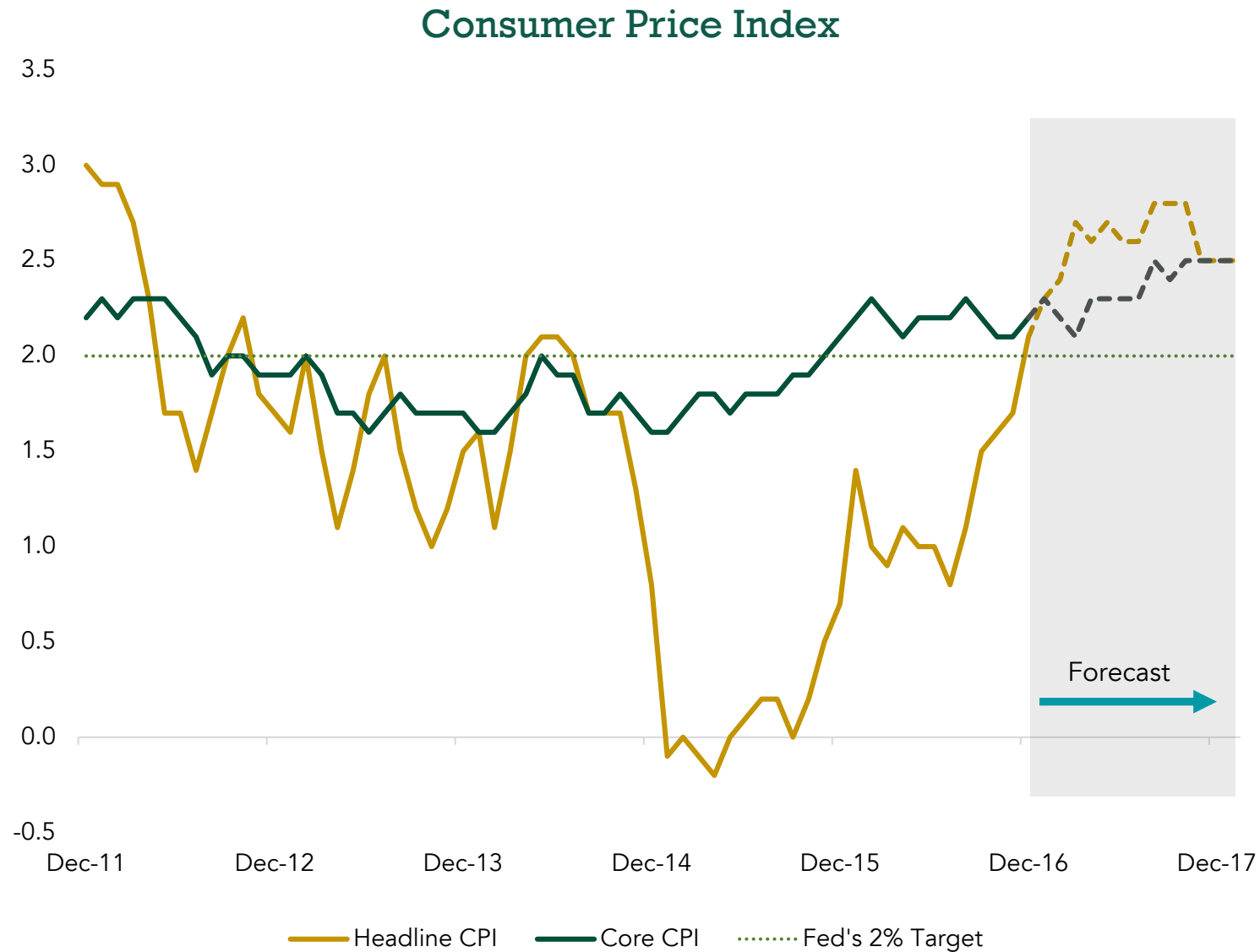


**Anti-Growth Proposals**

# High Debt Levels Create Policy Limitations

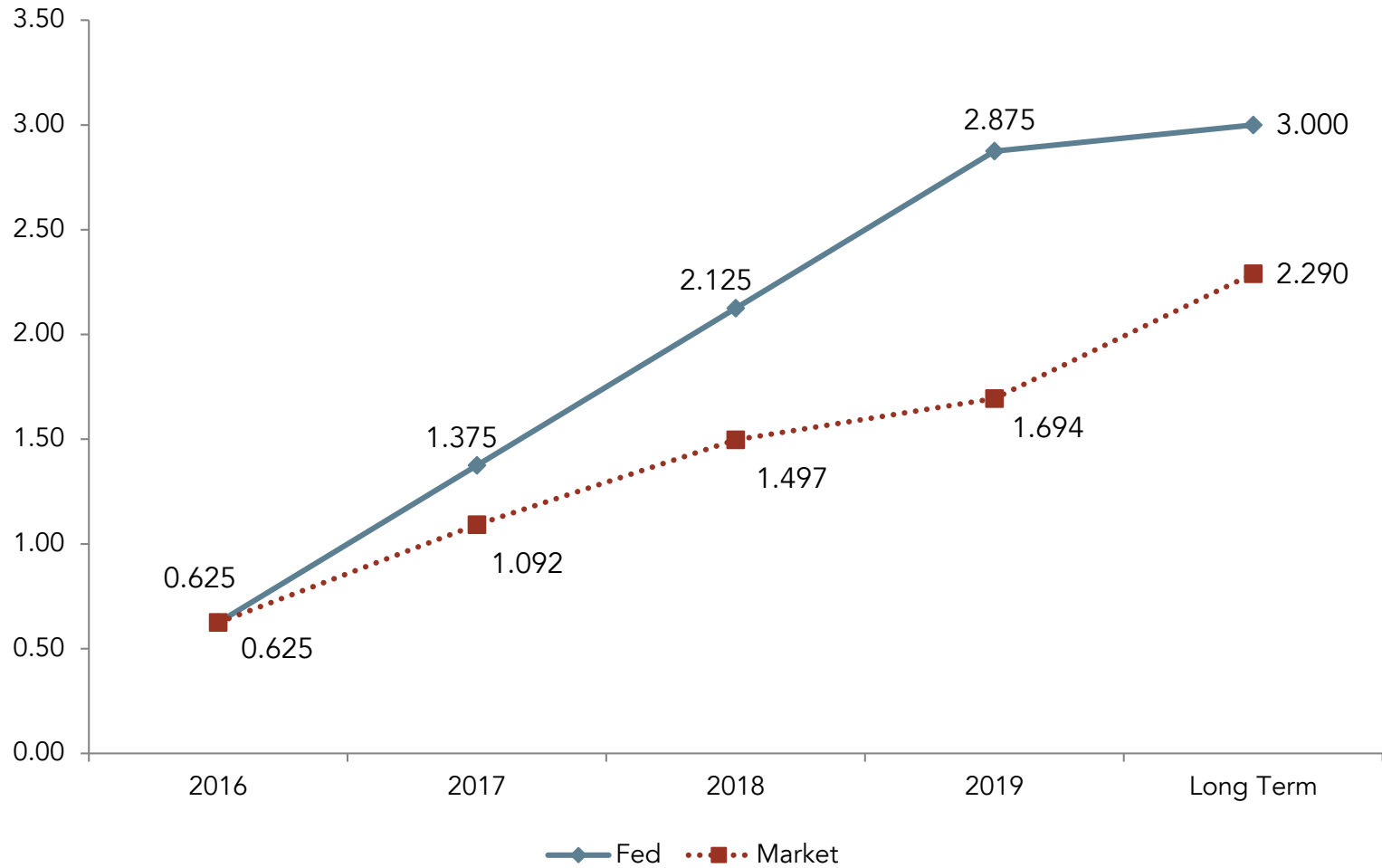
	Reagan	Bush #2	Trump
Debt Held by the Public	25.1%	31.4%	76.6%
Projected Revenue, Next 5 Years	22.4%	20.4%	18.2%
Projected Budget Balance, Next 5 Years	2.0%	3.3%	-3.4%
Proposed Tax Cut	-2.1%	-0.8%	-1.2% to -2.4%
Enacted Tax Cut	-1.9%	-0.8%	?

# Inflation Rising



# The Fed Will Address Rising Inflation Expectations

## Federal Reserve Policy Projections



# Conclusion

- > Global economic growth is improving as 2017 begins
- > Optimism about fiscal policy is driving the hope of an accelerating US economy – but not all policy actions will boost growth
- > Limitations to fiscal policy and uncertain timing of implementation means any growth impact could be more muted than investors now believe
- > Inflation and interest rates are on the rise – any acceleration in economic activity will be met by tighter Fed policy
- > Too much pessimism at the start of 2016....Too much optimism today?

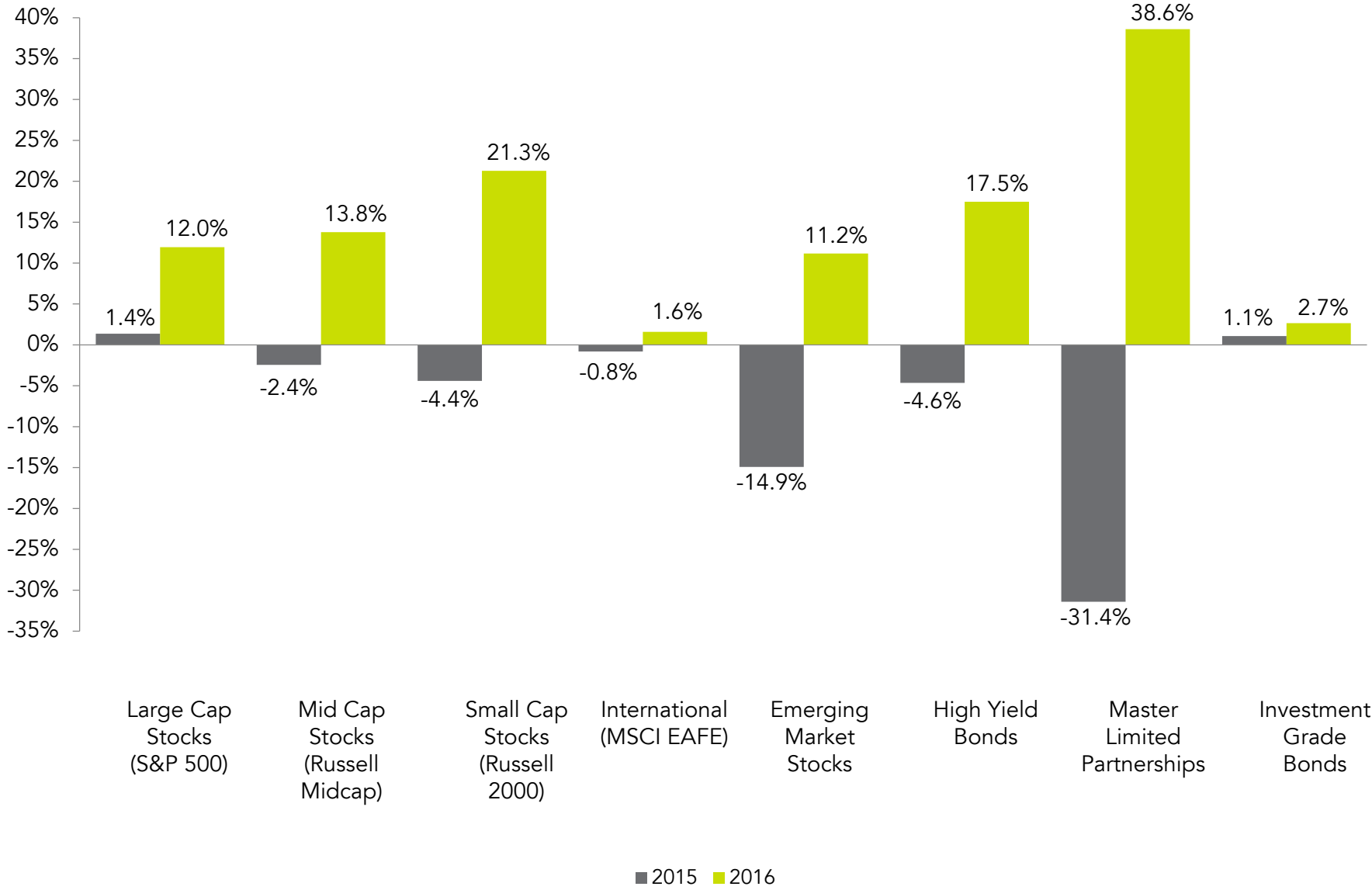
# Market Outlook



Charles E. Rinehart, CFA – Portfolio Manager  
Chad R. Maggard, CFA - Portfolio Manager

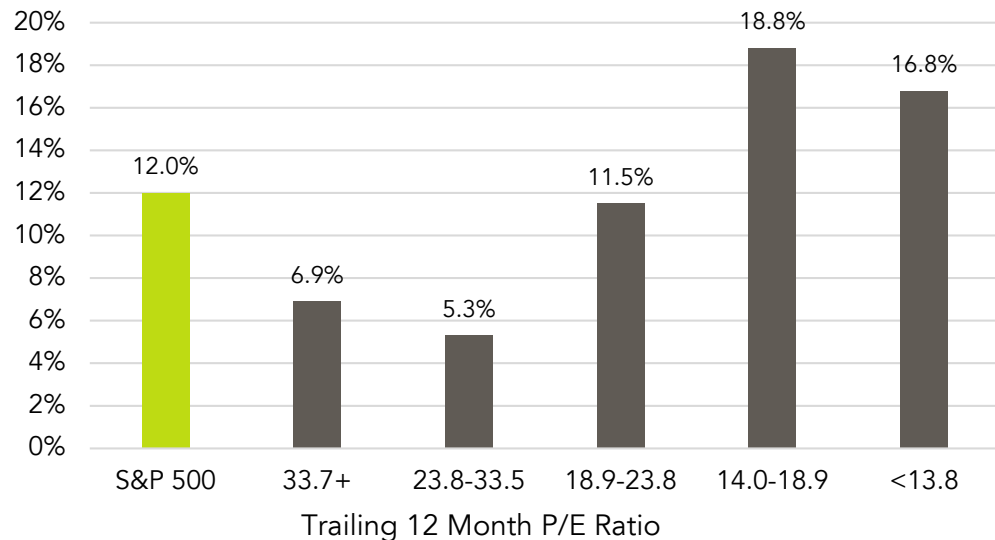


# Diversification Was More Rewarding in 2016

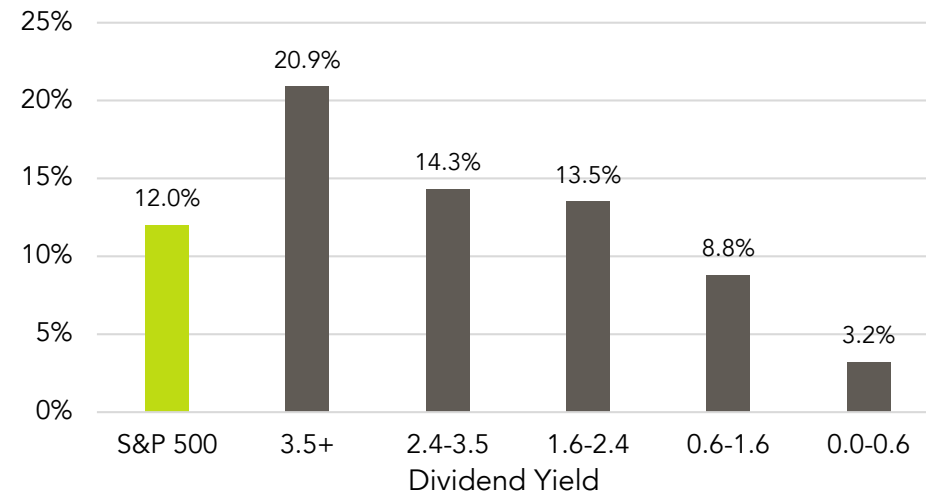


# 2016: Cyclical Recovery

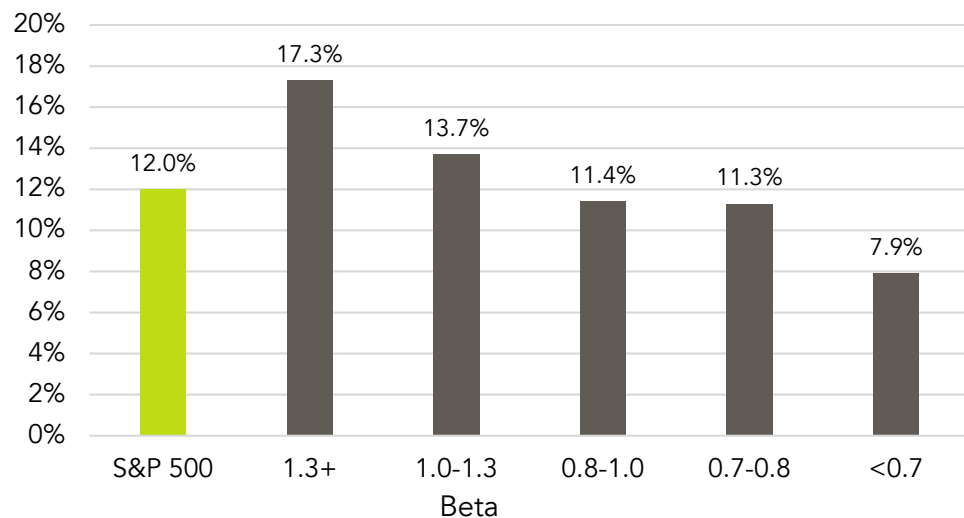
## The market rewarded value investors



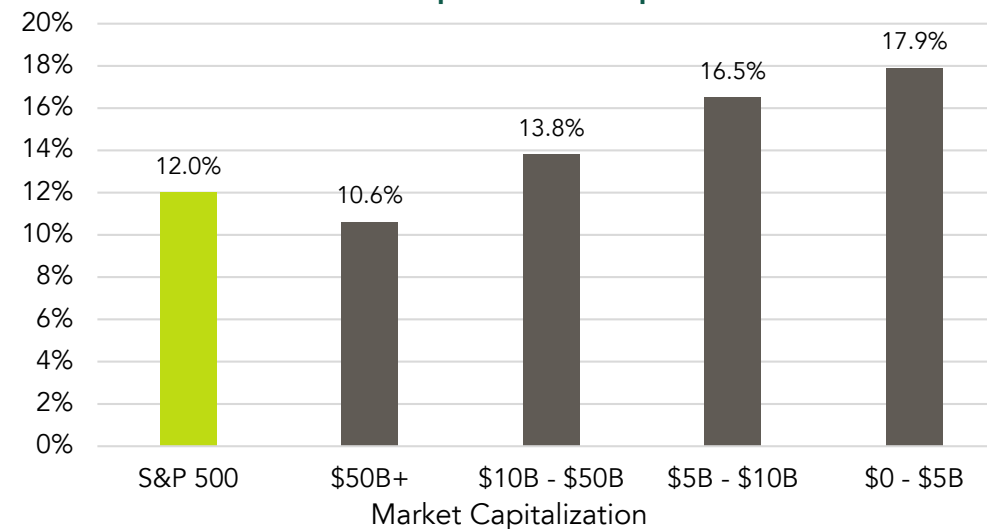
## ...as well as companies that pay dividends



## Cyclicals recovered with the economic outlook



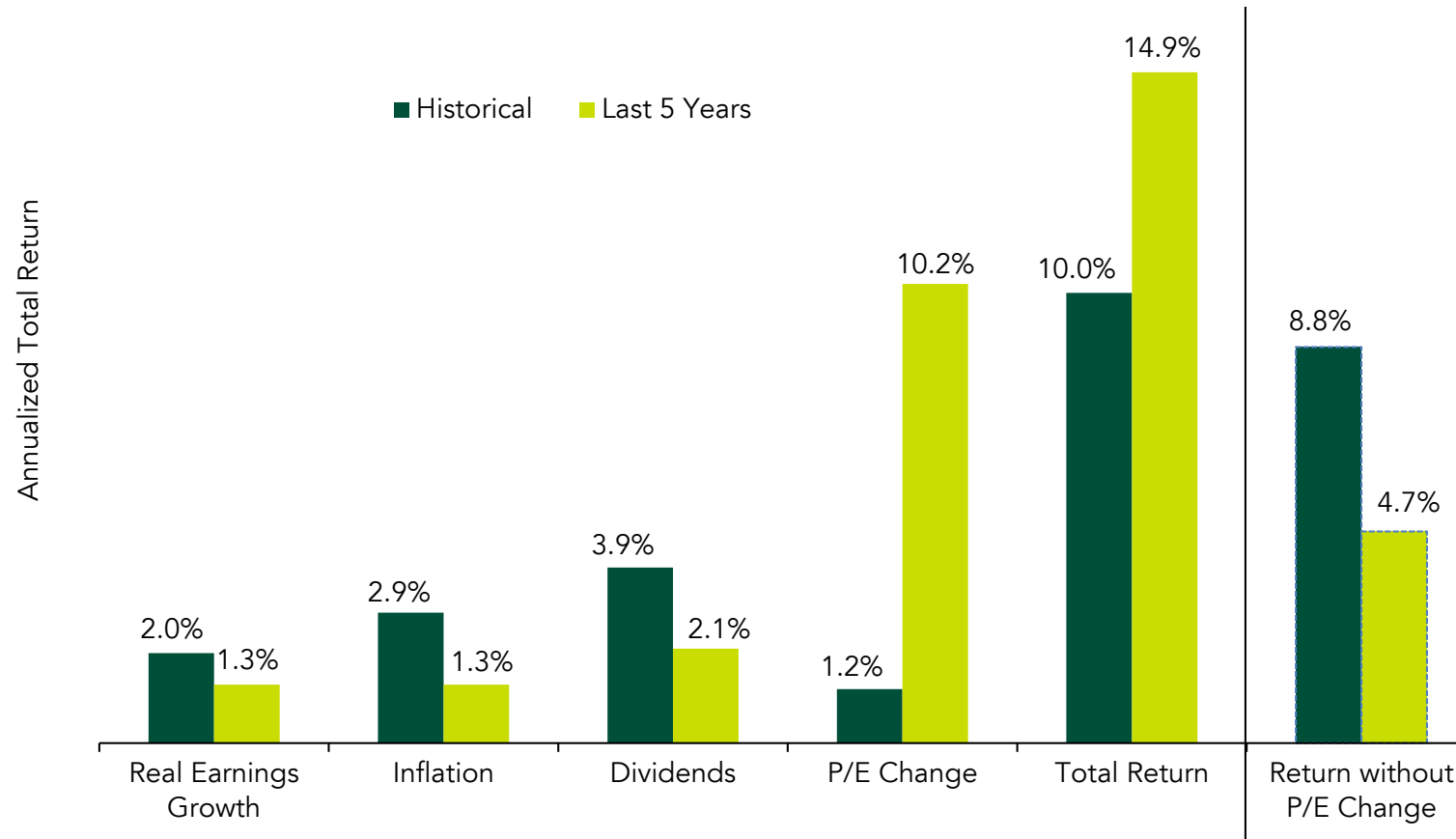
## Smaller companies outperformed



# Stocks: Lower Returns Expected

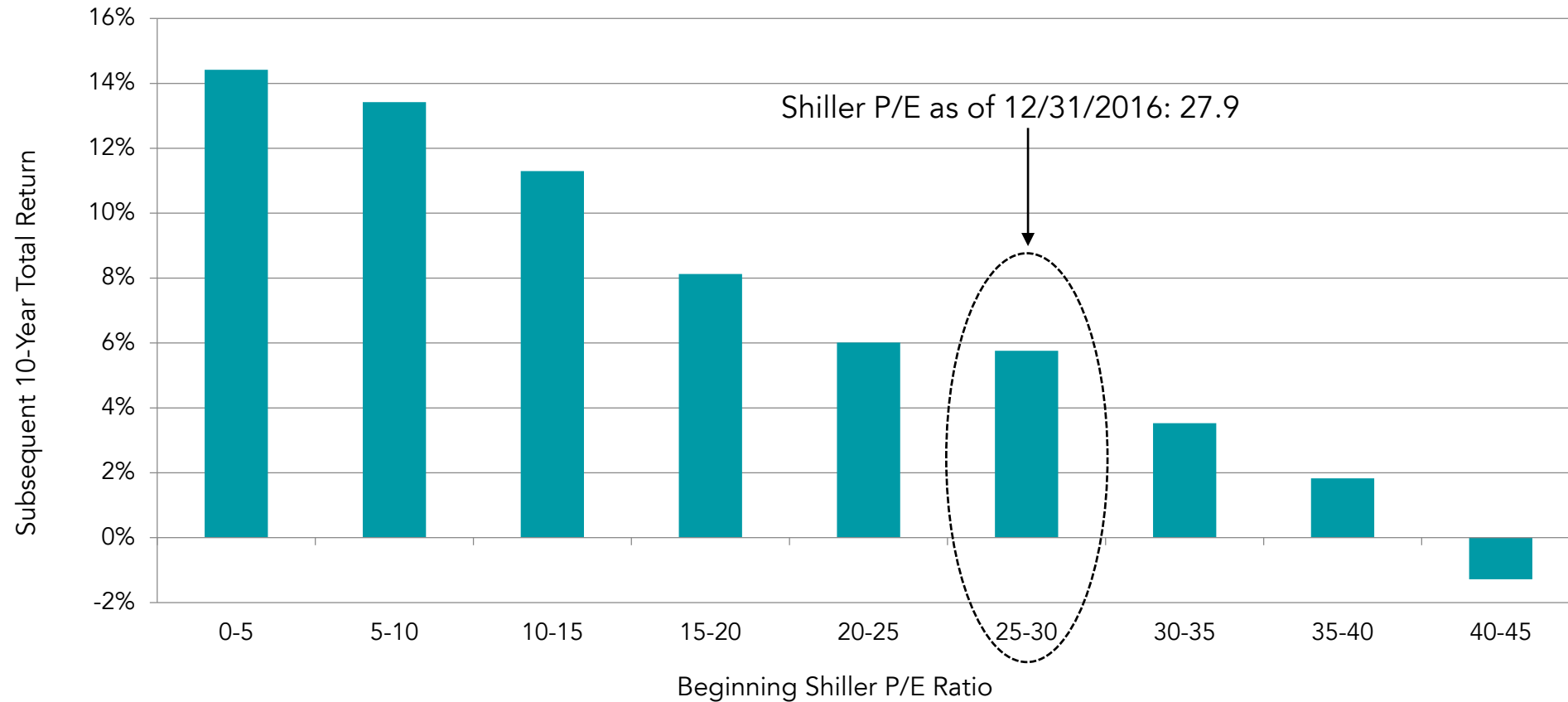
## Components of Return

Real Earnings Growth + Inflation + Dividends + P/E Change = Total Return



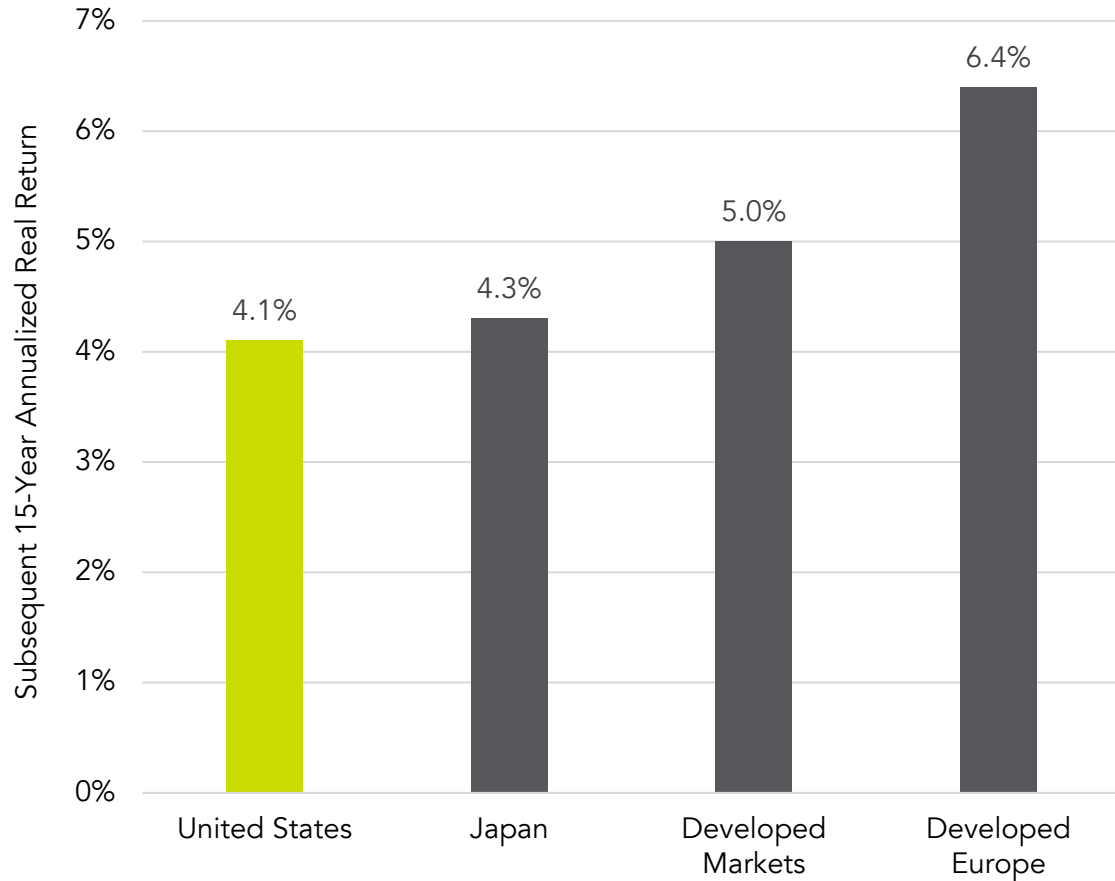
# Valuation: A Key Determinant in Our Forecast

## Shiller P/E Ratio vs. S&P 500 Future 10-Year Total Return: 1881-Present



# Stocks: Think Globally

## Historical Median Returns by Region at Current Valuations

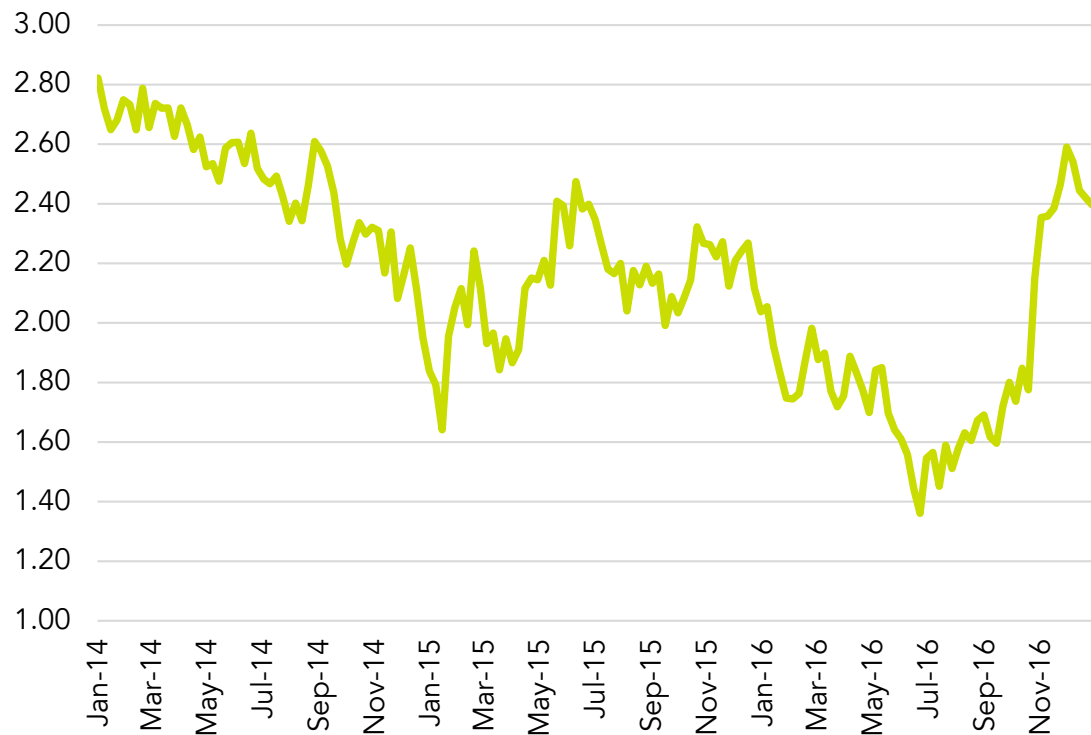


## Citigroup Global Economic Surprise Index

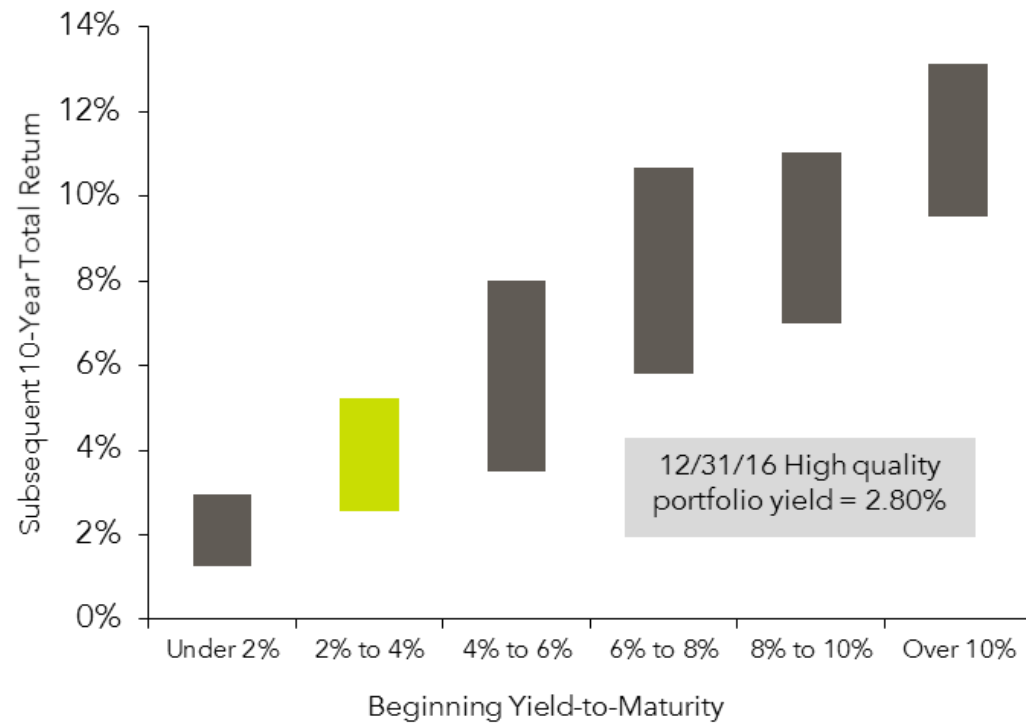


# Bonds: Higher Rates Lead to Better Bond Returns

## 10-Year Treasury Yield



## Projected Return Based on Beginning Yield



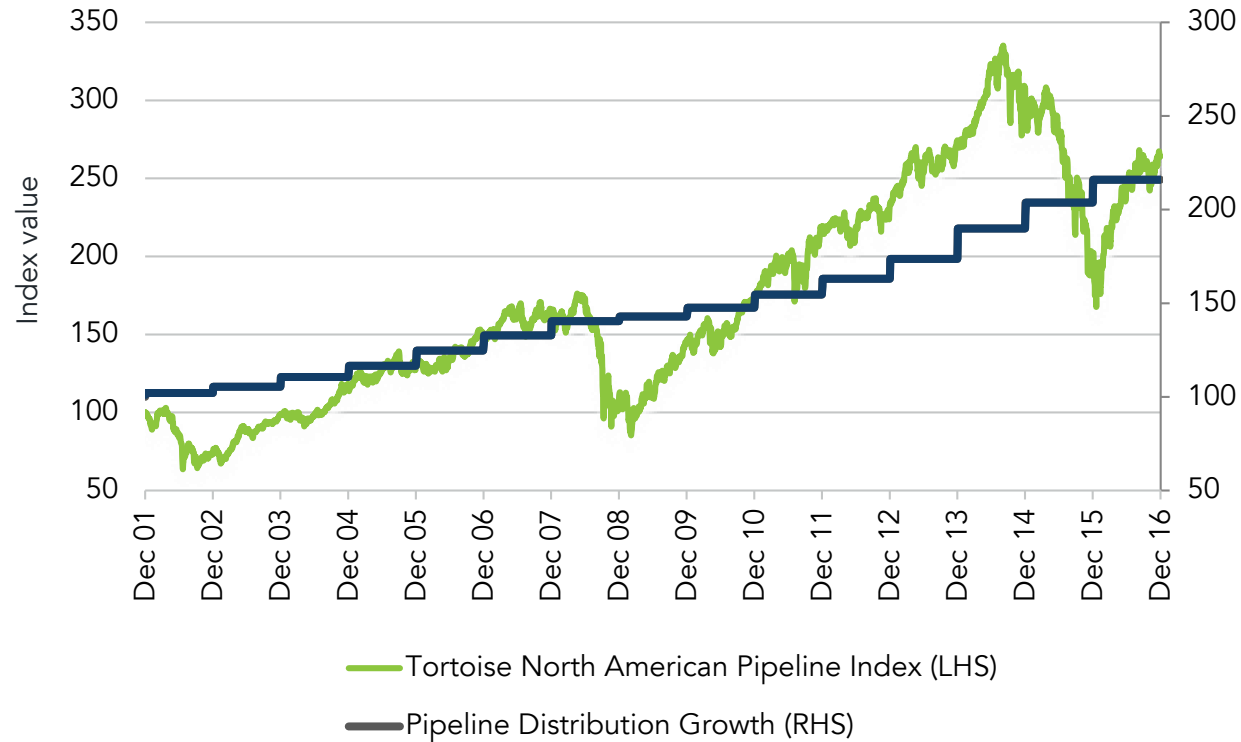
# High Yield: No Longer Distressed

High Yield Spreads  
(High Yield Interest Rates less Government Bond Rates)

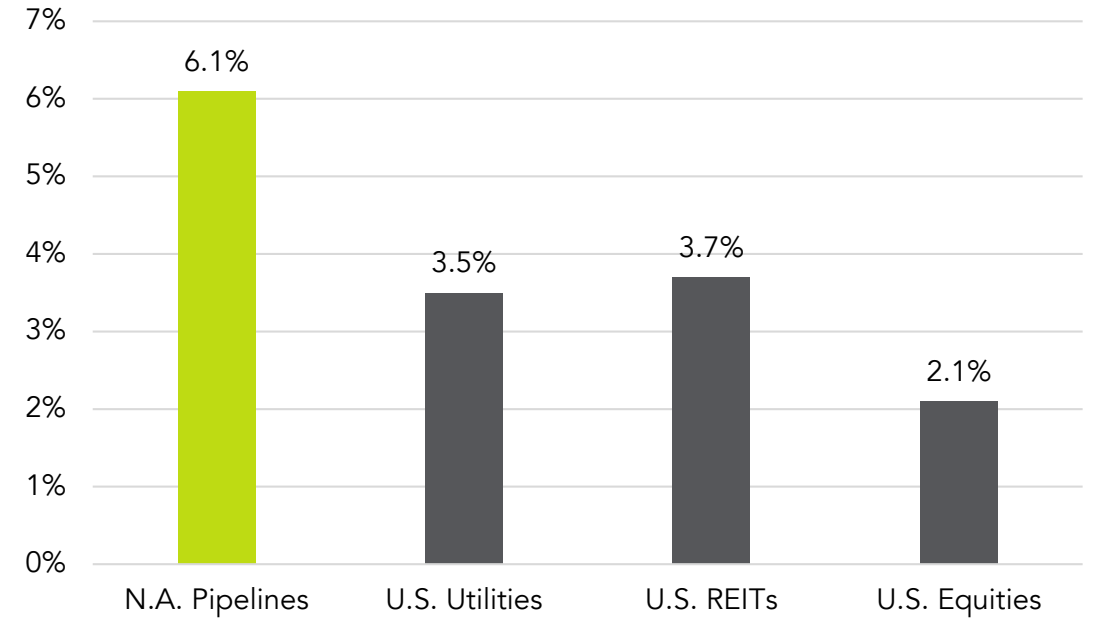


# Pipelines Still An Attractive Source of Income

## MLP Prices and Distribution Growth



## Relative Yield





# Market Conclusions

- > Above-average valuations lead to a tempered return forecast for US stocks over the intermediate to long-term. Stronger earnings growth and dividends will be necessary for sustained higher returns.
- > Investment-grade bonds play a key role in client portfolios for safety and income. Return expectations have increased slightly but are still below historical averages.
- > International stock allocations continue to be prudent given diversification benefits, attractive valuations, and improving fundamentals.
- > Alternative investments such as High Yield Bonds and MLPs offer higher income opportunities and alternate sources of return, which serve as an effective complement to stocks in client portfolios.
- > As always, we will focus on the long-term and stick to our discipline of valuation and diversification.

# Johnson Trust Company: Estate Planning



Michael D. Barnes, Esq., CTFA - President

J. Christine Warren, Esq., Trust Counsel

Tara N. Adams, CTFA - Senior Trust Officer

# Estate Planning is More Than Estate Tax Planning

- > With a basic exclusion amount of \$5,490,000 (in 2017), estate taxes affect very few individuals.
- > Even though estate taxes are no longer a concern for most, estate planning is still a critical part of your overall financial planning.

# How Johnson Trust Company Helps Our Clients

## 1. Planning

- Issue-spotting
- Idea generation
- Structuring appropriate techniques

## 2. Implementation

- Correct asset titling
- Coordinated beneficiary designations (IRA, life insurance, etc.)
- Complete Trust Administration, Trustee Services and Executor Services

## 3. Monitoring

- One-page, easy to understand estate plan summary
- Access to Johnson Trust Company for guidance and document review
- Regular monitoring of the estate plan relative to asset changes, life circumstances and changes to Federal and State tax law



# How Johnson Trust Company Helps Our Clients

## 1. Quantify your financial independence...

How much wealth do you need to retain during your lifetime to feel financially secure?

## 2. Identify an appropriate Family Legacy...

- How much do you feel is appropriate to transfer to family?
- How and when should those assets be transferred, given your family's unique circumstances?
- Transfer wisdom before wealth

## 3. Maximize your contribution to Society...

- Do you wish to make charitable gifts?
- How and when do you wish to make those gifts (during life and/or at death)?



# Basic Estate Planning Documents

Power of Attorney

Health Care Power of Attorney

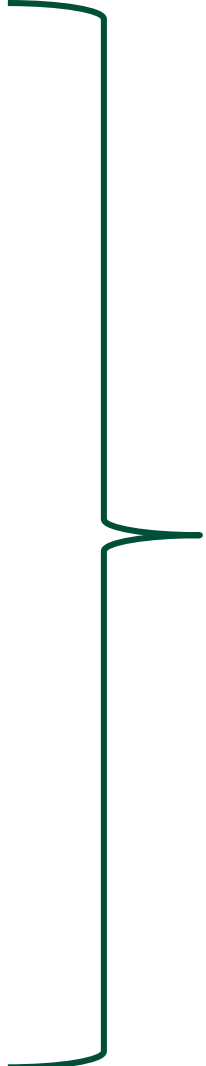
Living Will

Health Care Information Release  
("HIPPA Waiver")

Will

IRA or Retirement Plan Designation  
of Beneficiary

Trust



These documents  
are the foundation  
of your plan...

# What is a Trust?

A three-party plan for the management and distribution of a collection of assets into the future, or until a future date or event.

Three parties include:

1. **Grantor** – The person who establishes and funds the trust
2. **Trustee** – The party responsible for managing and distributing the trust assets according to the trust document
3. **Beneficiary** – The individual or organization for whom the trust assets are managed and to whom the assets may be distributed. There are often current and future beneficiaries who may not be the same individuals.

# What are the Benefits of a Trust?

- > Managing your assets if you are unable
- > Managing the transfer of wealth to the next generation or to charity
- > Reducing gift and estate taxes
- > Charitable gift planning
- > Special needs planning
- > Avoiding probate/maintaining privacy
- > Asset protection



# The Complex Role of a Trustee

- > Determination of discretionary distributions to beneficiaries
- > Timely trust income distributions to beneficiaries
- > Supervision and investment of trust assets
- > Timely investment statements to beneficiaries
- > Preparation and filing of federal and state trust income tax returns
- > Tax reporting to beneficiaries

# I have Estate Plan documents in place. Am I finished now?

- > You still have some work to do! Beneficiary designations and asset titling will drive your estate plan
- > It is critical that you review your assets to ensure beneficiary designations and asset titles are coordinated with your estate planning documents.

Your review should include:

- Checking, savings accounts
- Investment accounts
- Real estate
- Life insurance
- Retirement accounts

# Reasons to Review Your Estate Plan

- > Retirement
- > Marriage
- > Birth or adoption
- > Financial responsibility of a child
- > Divorce
- > Death of spouse
- > Change in health
- > Serious illness of family member
- > Receipt of inheritance
- > Move to another state
- > Acquisition of property in another state
- > Death of executor, trustee or guardian
- > Change in tax, property, probate or trust law
- > Change in beneficiary attitudes
- > Change in insurability for life insurance
- > Change in business interest

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▶ Thank You!

For more information, please contact us at 800.541.0170 or visit our website at [www.johnsoninv.com](http://www.johnsoninv.com).

