ABUNDANCE
WEALTH COUNSELORS

Market Intelligence

February 2017

Index	Jan Return	1 Year
MSCI ACWI	2.77%	15.31%
Russell 2000	0.35%	33.86%
MSCI EAFE	3.04%	11.23%
Barclay's Aggregate Bond	0.12%	-0.69%
Bloomberg Commodity	1.14%	18.20%

Along with a new President comes new policies and the potential for new economic conditions. Since the November election, the capital markets have welcomed these potential changes. With the US equity markets reaching new highs in January, one could wonder how long this trend could last. From the election to date, the S&P 500 has advanced about 9.00%. To the left is a chart of the broad market index performance through January.

Inflation

Two of the biggest impacts to an investment plan over time are taxes and inflation. Although one can attempt to plan around current tax policy, the inflation rate is not as predictable.

Inflation can be classified as the general increase in prices and fall in the purchasing power of money. When prices for food, gas, and other goods and services rise, it affects the whole economy. Inflation impacts the cost of doing business, the cost of living, borrowing money, bond yields and many other parts of the economy. Inflation can be both good and bad for the economy, depending on which factors it is driving and how rapidly prices rise.

For the past few years we have been in a deflationary period, driven by lower commodity prices and slow global economic growth. However, 2017 might be the start of a new era. Recently the US economy has been showing signals that we are heading into a period of light inflation. Consumer prices have been rising, energy prices have been rebounding, unemployment rates are falling, wages have been increasing, and the Federal Reserve has begun to slowly increase interest rates.

If inflation levels become too high the economy will suffer, however if inflation is slow and controlled the economy may prosper. With mild inflation, there are opportunities. If low inflation is coupled with low interest rates, then the cost of borrowing money is low. Low rates encourage consumption and people are more likely to purchase big ticket items or invest, which helps stimulate the economy. In addition, when consumer prices rise, the value of items like real estate also increase. On the contrary, fixed income investments such as bonds lose value as they do not increase with inflation.

To adjust portfolios for a transition from a deflationary period to an inflationary period, we have added investments we believe will benefit from inflation. These include Treasury Inflation Protected Securities (TIPS) and commodity related investments. We have also reduced exposure to bonds in portfolios.

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