

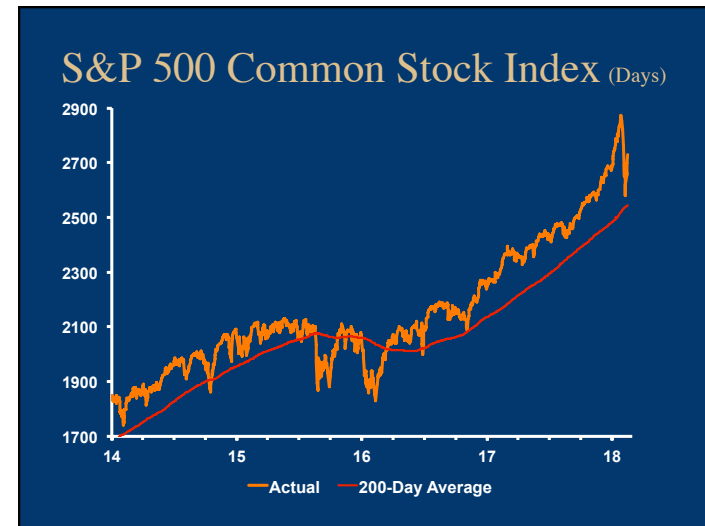

2018 AWPA Annual Meeting

The Economic and Market Outlook
2018 – 2021

Clare Zempel
Economist and Investment Strategist
Zempel Strategic

Rancho Mirage, California
February 19, 2018

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Ten Bear Stock Market Declines Since 1955*

Start	End	Decline	Duration*
8/2/56	10/22/57	-21.47%	63.7
12/12/61	6/26/62	-27.97%	28.0
2/9/66	10/7/66	-22.18%	34.3
11/29/68	5/26/70	-36.06%	77.6
1/11/73	10/3/74	-48.20%	90.0
11/28/80	8/12/82	-27.11%	88.9
8/25/87	12/4/87	-33.51%	14.4
7/16/90	10/11/90	-19.92%	12.4
3/24/00	10/9/02	-49.15%	132.7
10/9/07	3/9/09	-56.78%	73.9
Averages		-34.24%	61.6

* Declines > 20%
* Weeks




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31 Stock Market Corrections Since 1955* (1/3)

Start	End	Decline	Duration*
9/23/55	10/11/55	-10.59%	2.6
8/3/59	10/25/60	-14.02%	64.1
8/22/62	10/23/62	-10.52%	8.9
5/13/65	6/28/65	-9.60%	6.6
9/25/67	3/5/68	-10.11%	23.1
4/28/71	8/9/71	-10.73%	14.7
9/8/71	11/23/71	-11.03%	10.9
11/7/74	12/6/74	-13.56%	4.1
7/15/75	9/16/75	-14.14%	9.0
9/21/76	3/6/78	-19.41%	75.9
9/12/78	11/14/78	-13.55%	9.0
10/5/79	11/7/79	-10.25%	4.7

* Declines > 5% But < 20%
* Weeks




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31 Stock Market Corrections Since 1955 (2/3)*

Start	End	Decline	Duration*
2/13/80	3/27/80	-17.07%	6.1
10/10/83	7/24/84	-14.38%	41.1
1/2/90	1/30/90	-10.21%	4.0
2/2/94	4/4/94	-8.94%	8.7
2/18/97	4/11/97	-9.63%	7.4
10/7/97	10/27/97	-10.80%	2.9
7/17/98	8/31/98	-19.34%	6.4
7/16/99	10/15/99	-12.08%	13.0
11/27/02	3/11/03	-14.71%	14.9
2/11/04	8/12/04	-8.16%	26.1
4/23/10	7/2/10	-15.99%	10.0
4/29/11	10/3/11	-19.39%	22.4

* Declines > 5% But < 20%
* Weeks



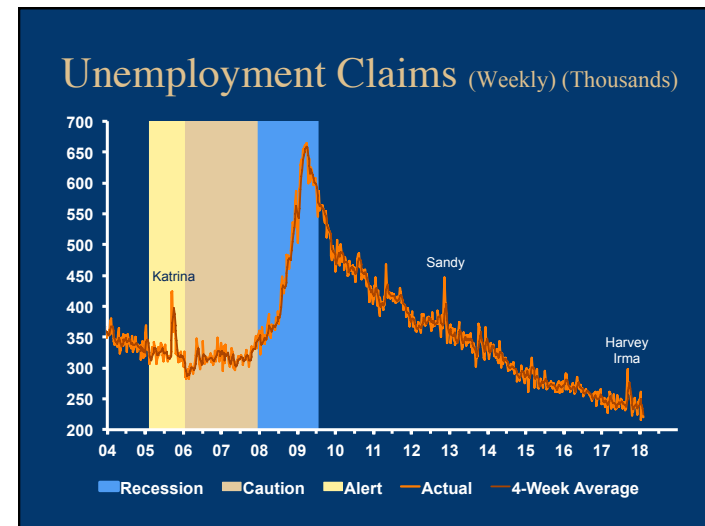
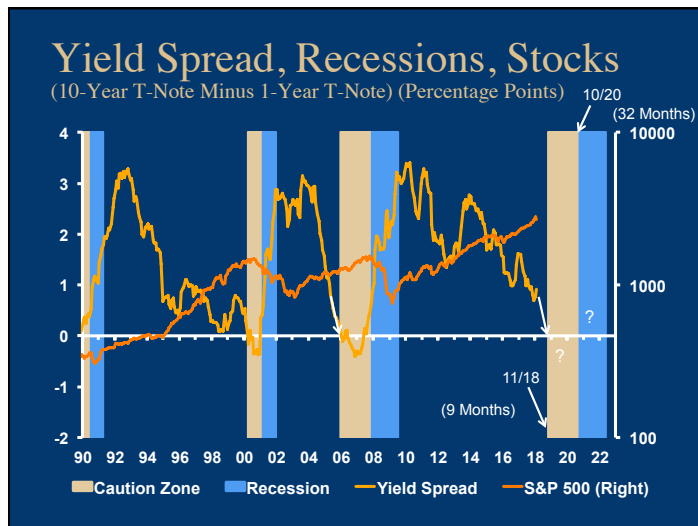
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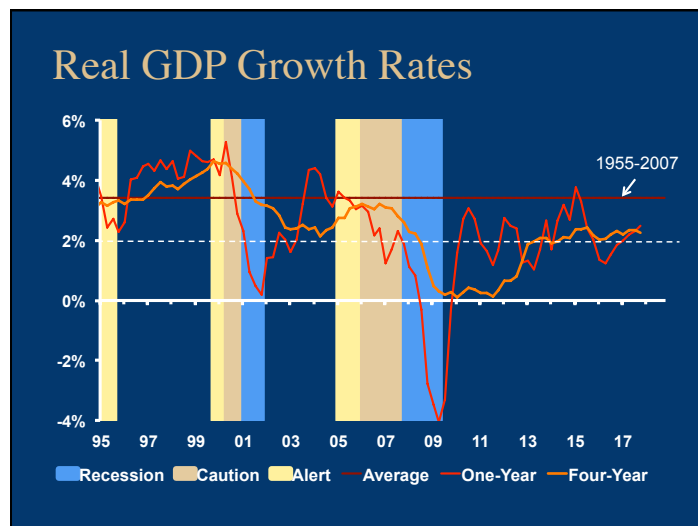
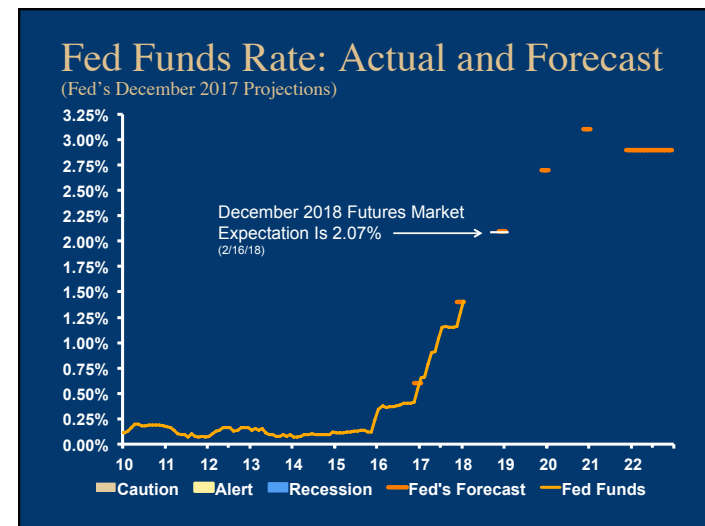
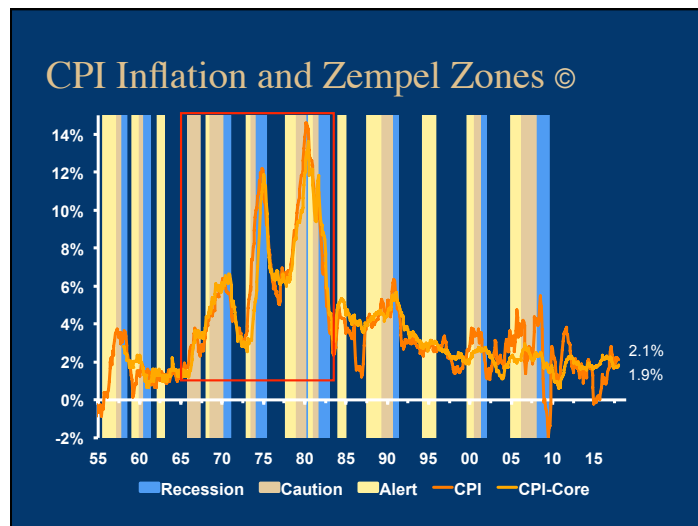
31 Stock Market Corrections Since 1955 (3/3)*

Start	End	Decline	Duration*
10/28/11	11/25/11	-9.84%	4.0
4/2/12	6/1/12	-9.94%	8.6
9/14/12	11/15/12	-7.67%	8.9
5/21/13	6/24/13	-5.76%	4.9
9/18/14	10/15/14	-7.40%	3.9
5/21/15	8/25/15	-12.35%	13.7
11/3/15	2/11/16	-13.31%	14.3

Averages -12.08% 14.7
Maximum -19.41% 75.9
Minimum -5.76% 2.6

* Declines > 5% But < 20%
* Weeks






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Key "Market-Based" Expectations

- No Recession Before Late-2020 If Then
- No Severe Slowdown Before Late-2018 If Then
- Real Growth and Inflation Rise Somewhat
- Small and Infrequent Fed Funds Hikes
- Moderate Sustained Bond-Yield Rise
- No Bear Stock Market Before Late-2019
- No Major Correction Unless Stocks or Yields Jump 15%

Uncertainties

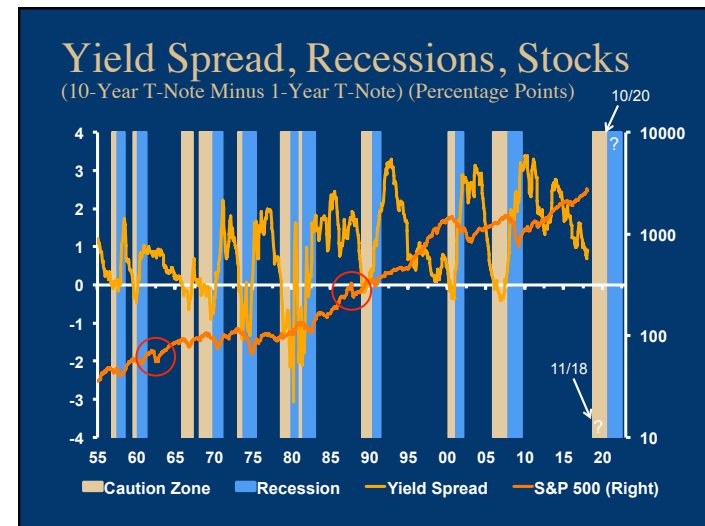
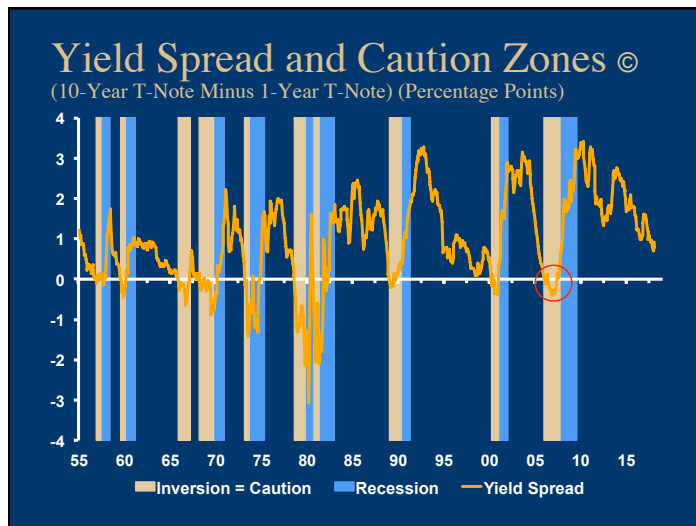
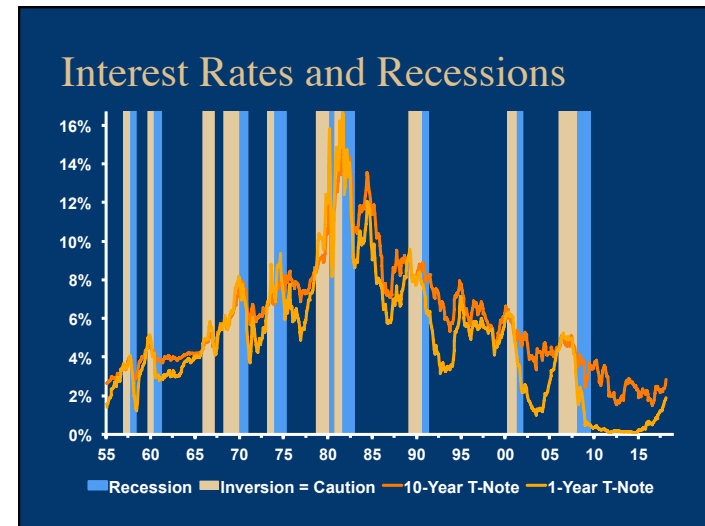
- Federal Reserve Leadership
- Deregulation
- Supply-Side Tax Cuts
- Infrastructure Boost vs. Monetary Offset
- Trade Wars vs. Tough Negotiation
- Civil Liberties Threats
- International Crises

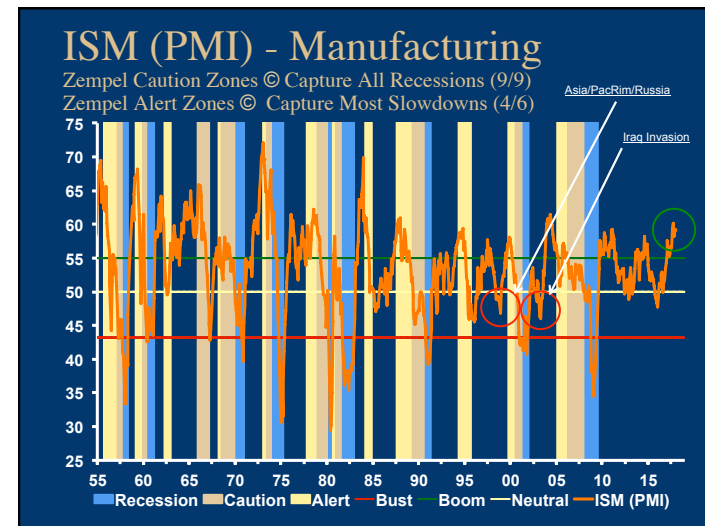
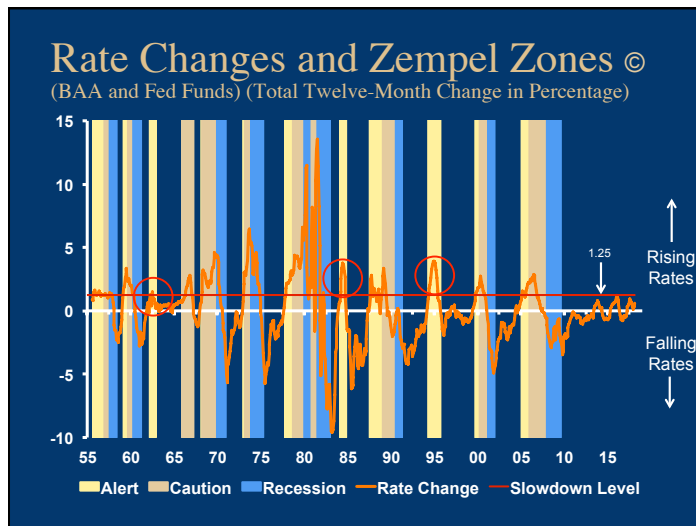
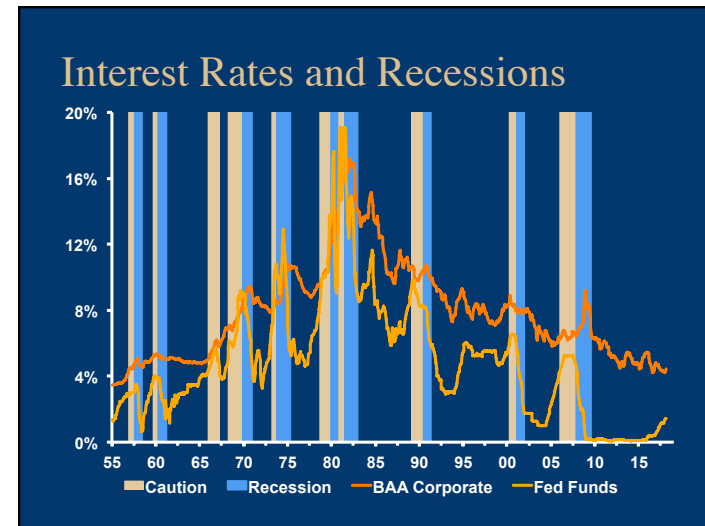
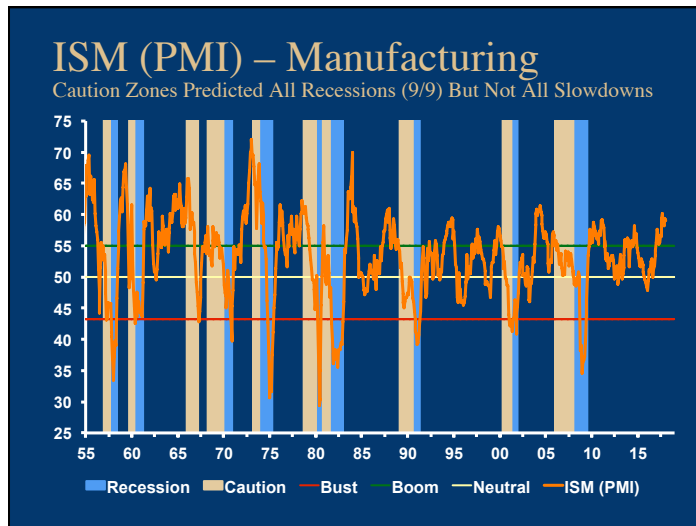



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Key "Market-Based" Expectations
No Recession Before Late-2020
No Severe Slowdown Before Late-2018

Zempel Zones
Alert Zone = Slowdown
Caution Zone = Recession Imminent





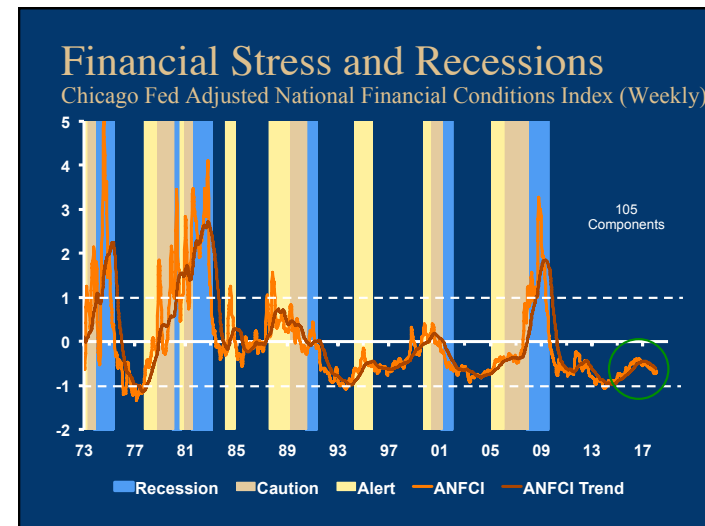
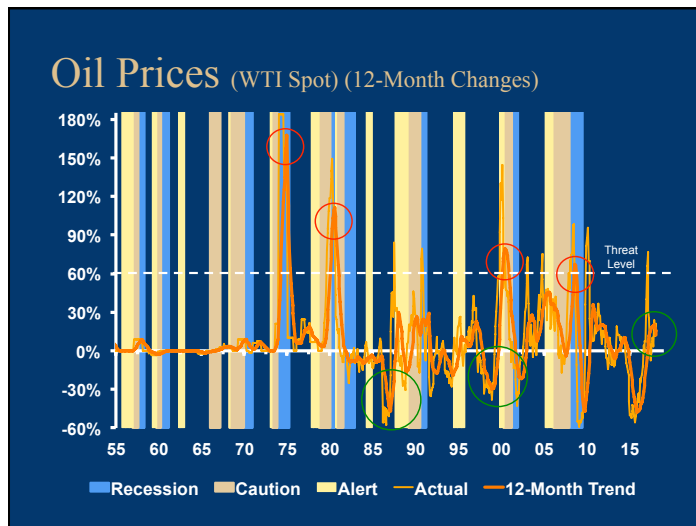


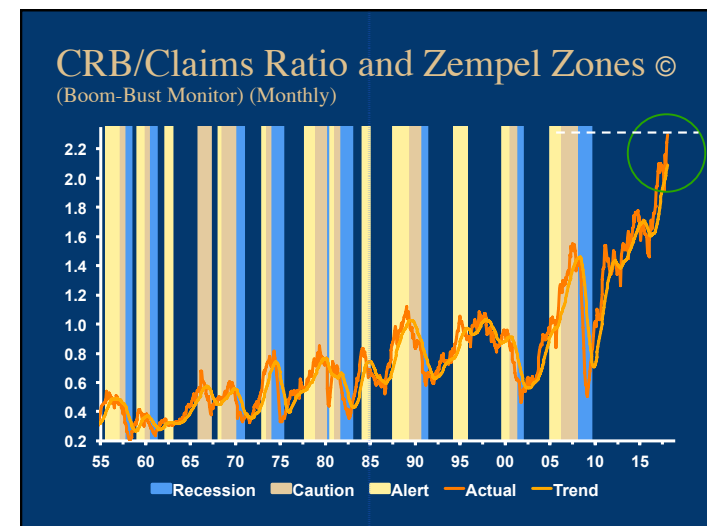
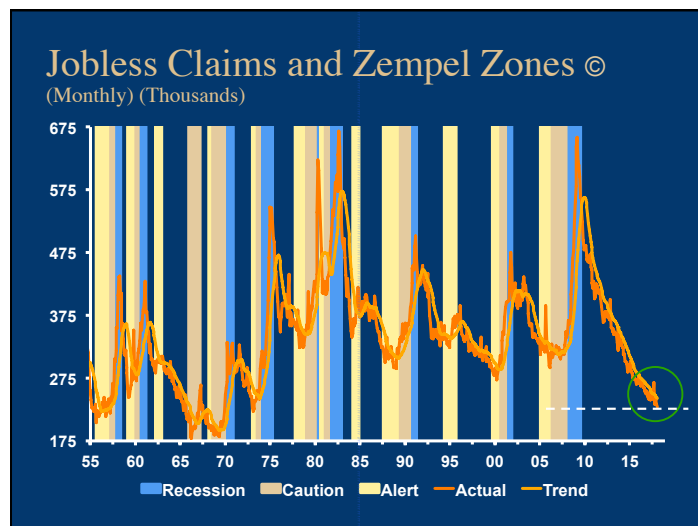
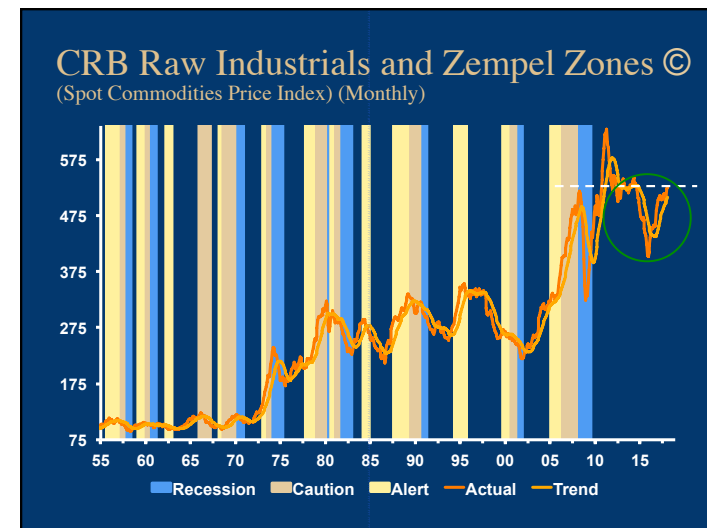
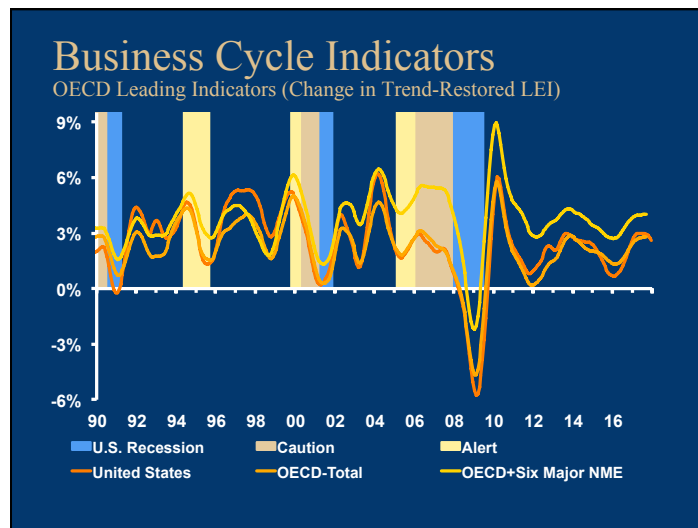
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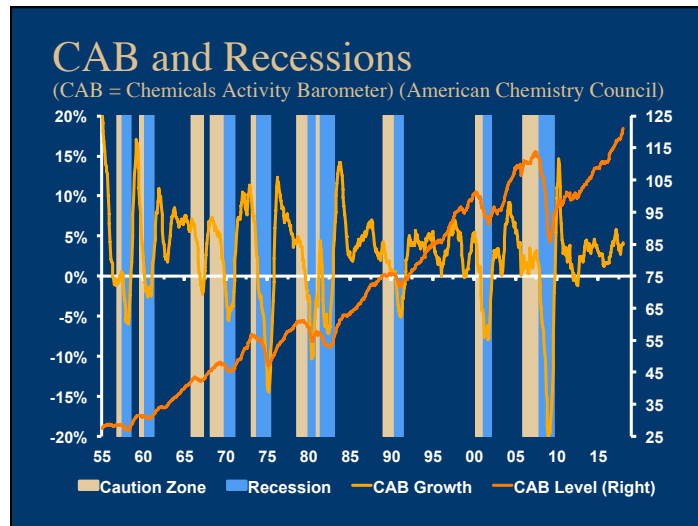
Best Directional Indicators
 No Alert Zone = No Major Slowdown
 No Caution Zone = No Recession

Other "Threats"
 Oil Prices
 Financial Stress
 International Trends

Best "Coal Mine Canary"
 Unemployment Claims





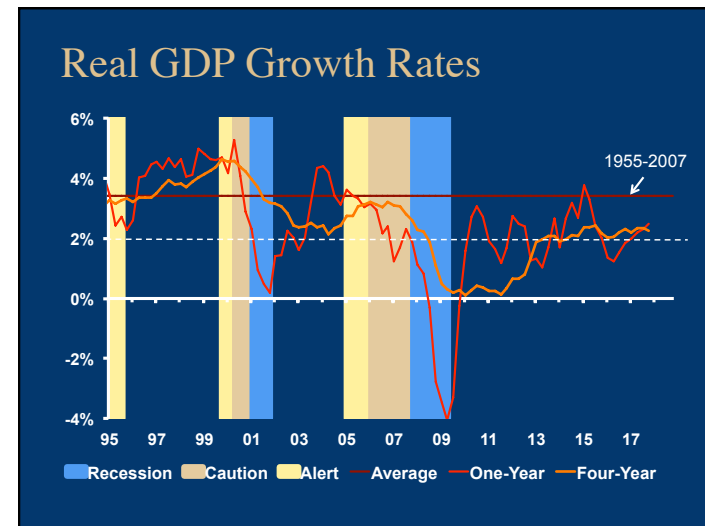
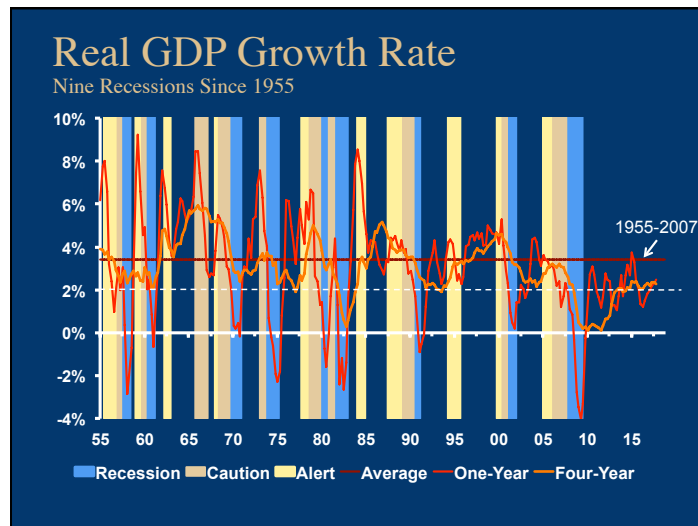


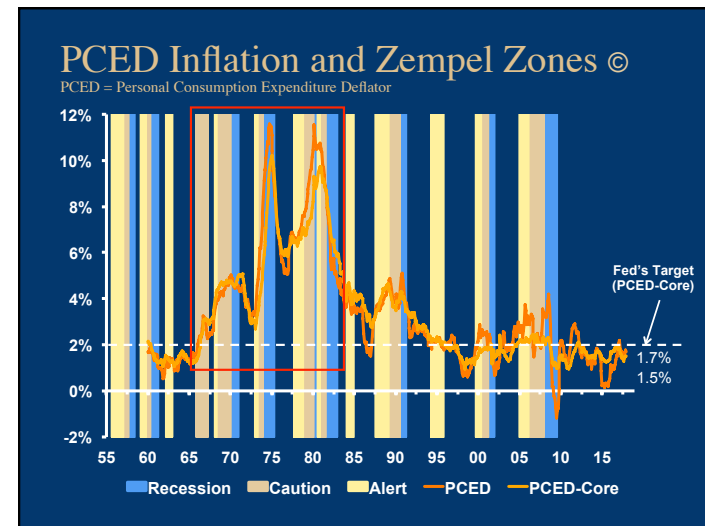
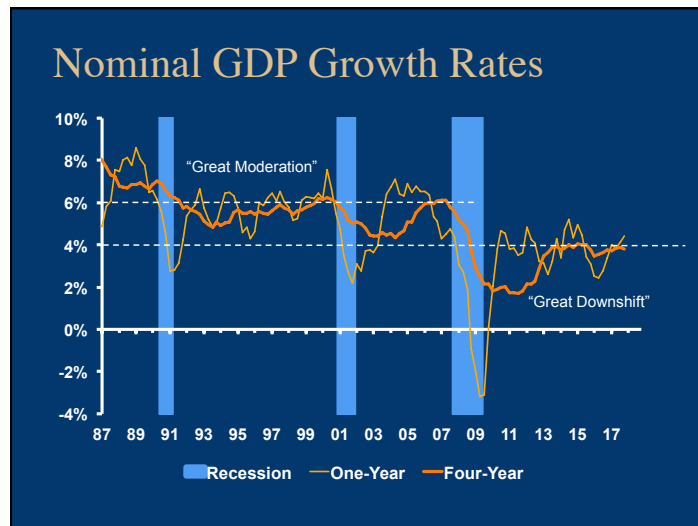
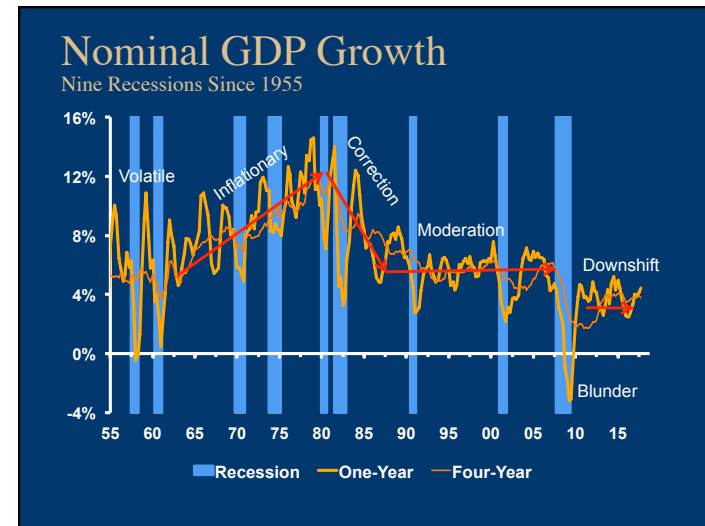
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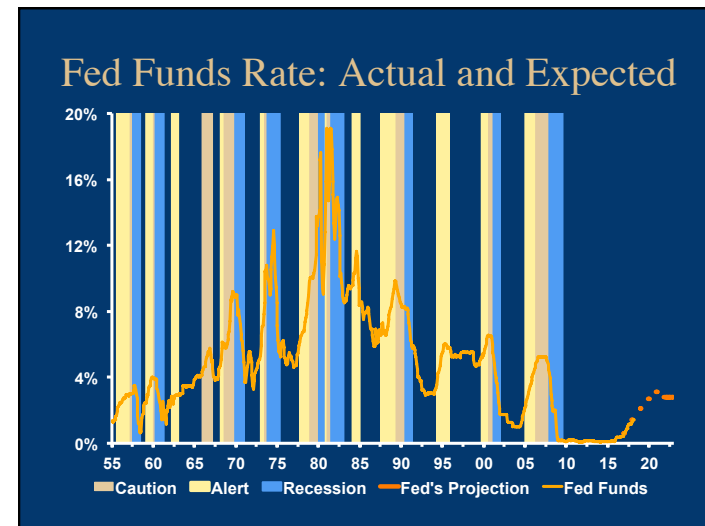
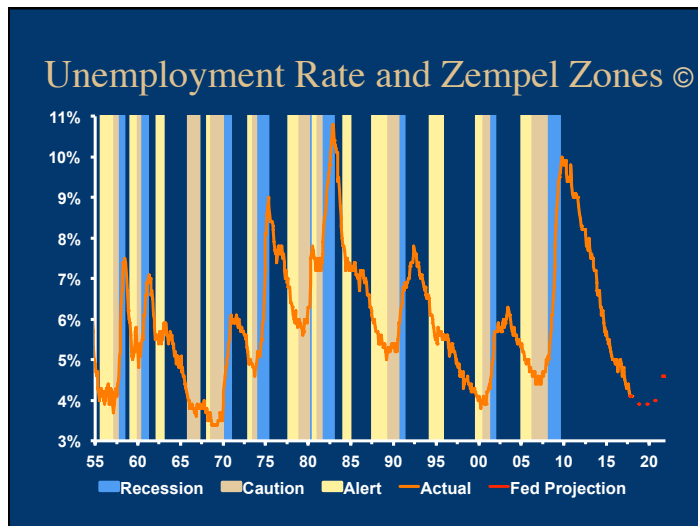
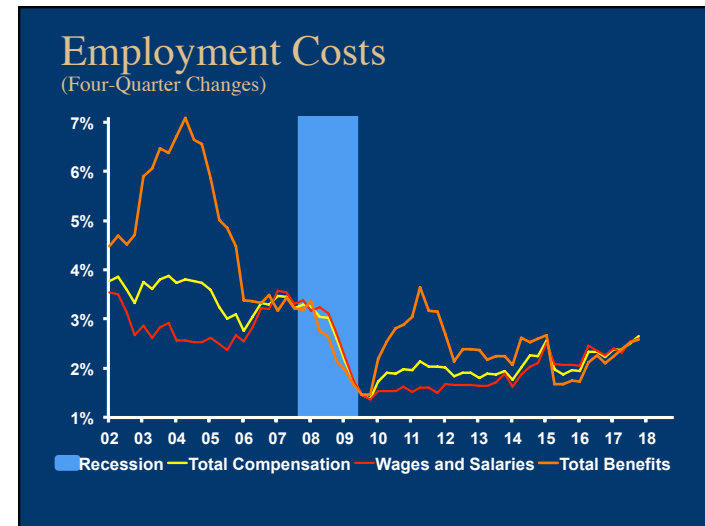
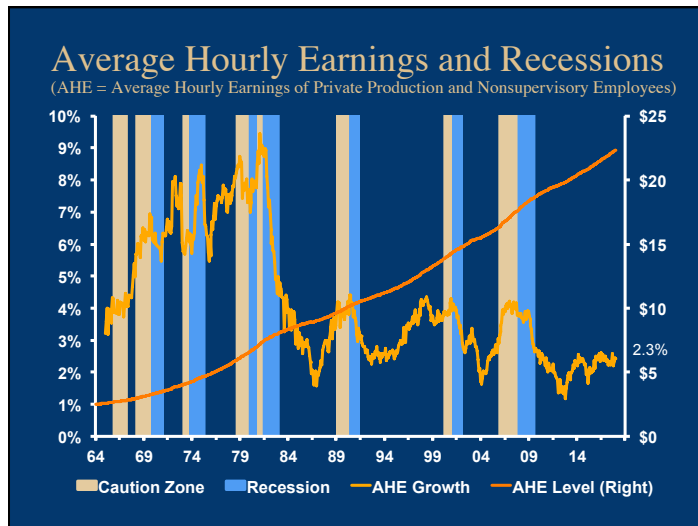
Key “Market-Based” Expectations


- No Recession Before Late-2020
- No Severe Slowdown Before Late-2018
- Real Growth and Inflation Rise Somewhat
- Small and Infrequent Fed Funds Hikes
- Moderate Sustained Bond-Yield Rise

Fed’s Present Policies Sustained










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Expect Slow Growth Because...
 Fed's Inflation Ceiling Is 2%
 Fed's Nominal Growth Ceiling Is 4%
 Implied Real Growth Ceiling Is 2%

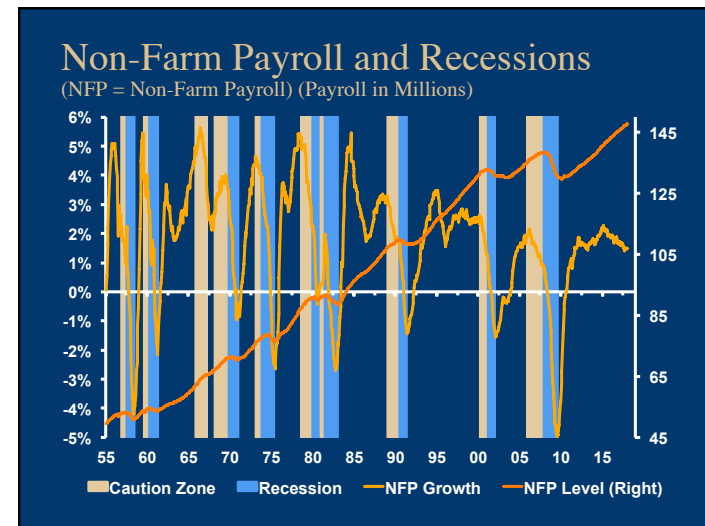
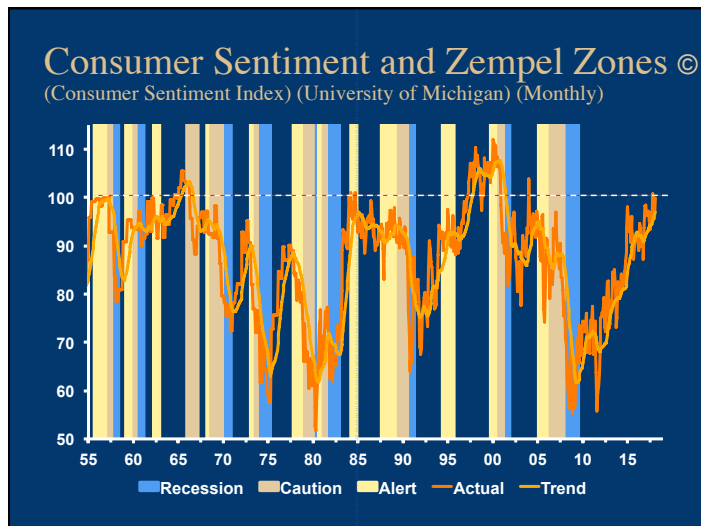
In 2018-2019...
 PCED Inflation Should Be < 2%
 Real Growth Should Be > 2%
 Faster Real Growth Requires Higher Ceilings
 Higher Ceilings Require Intellectual Revolution

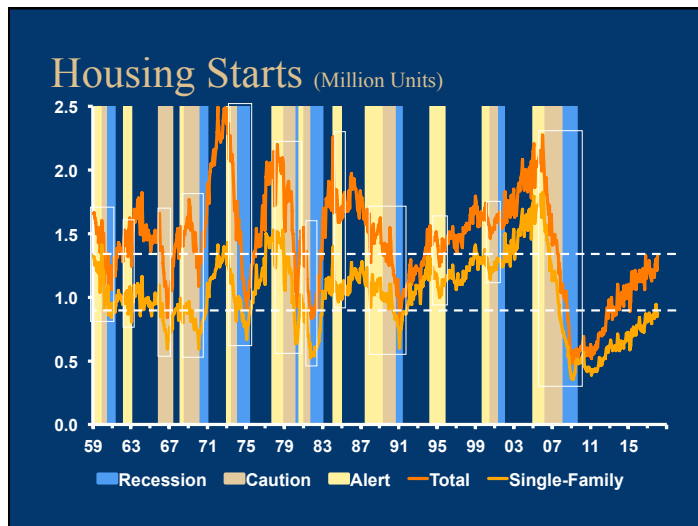
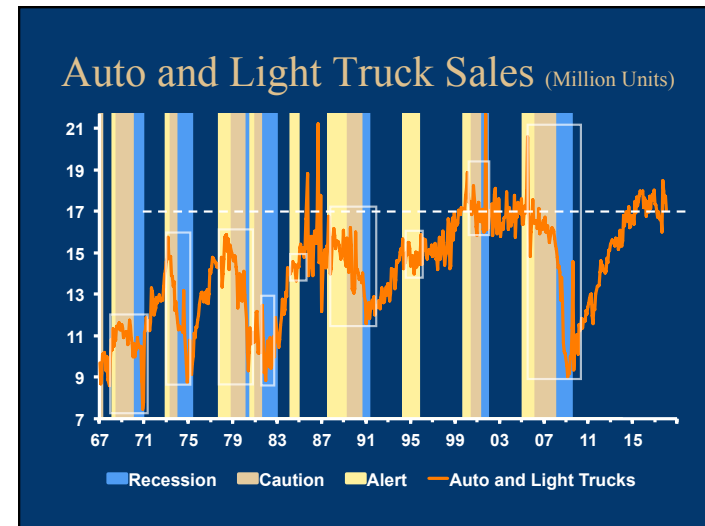
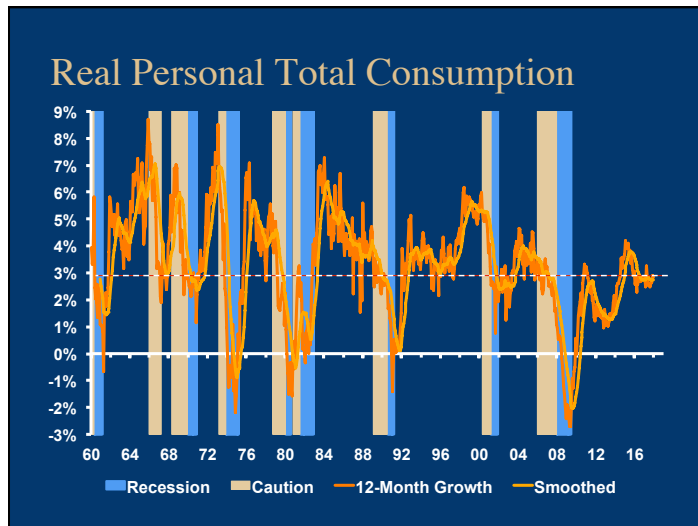


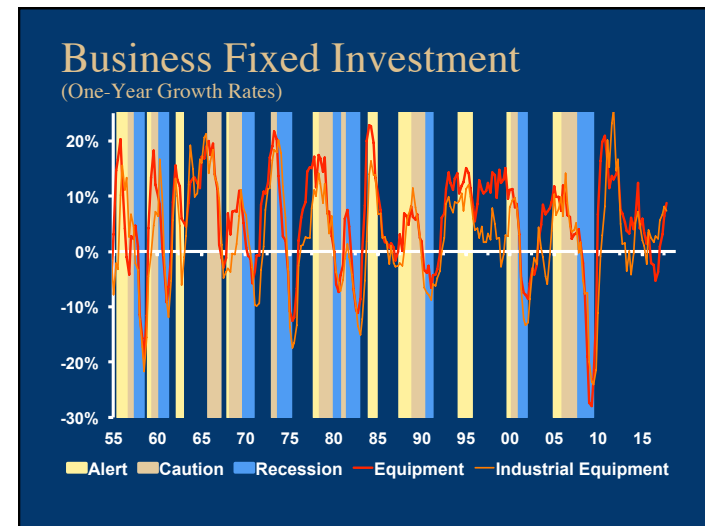
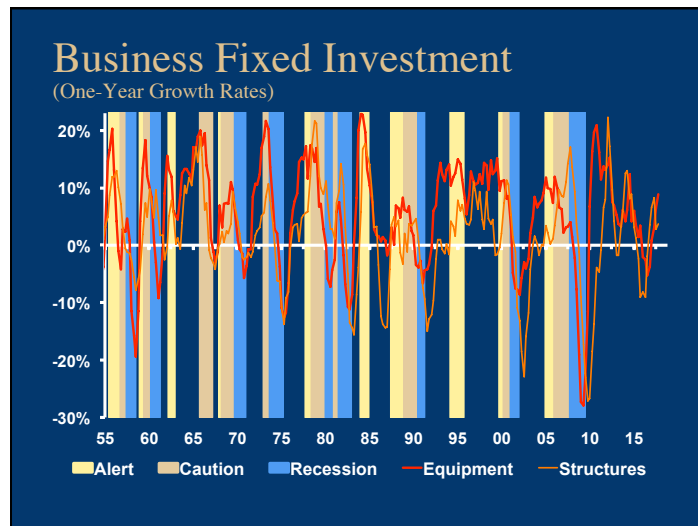
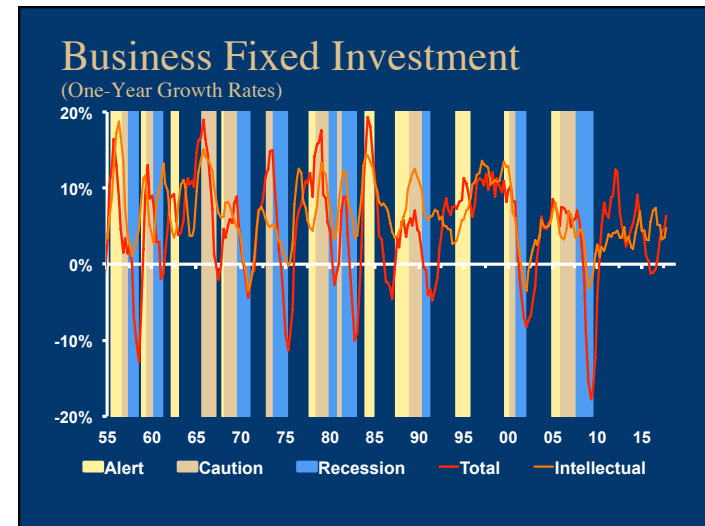
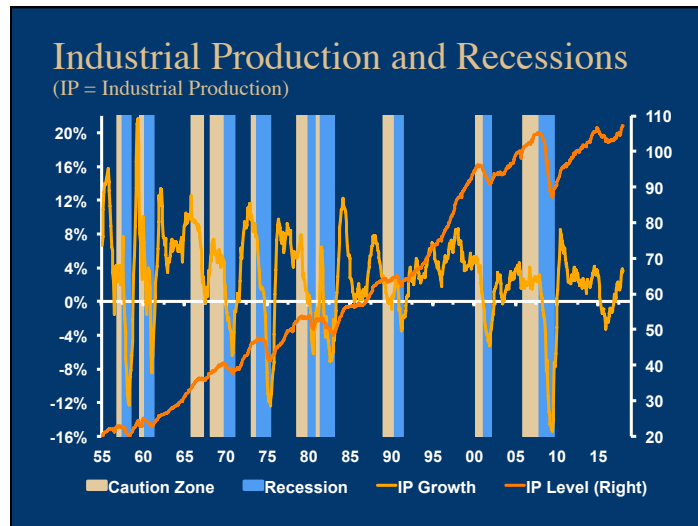
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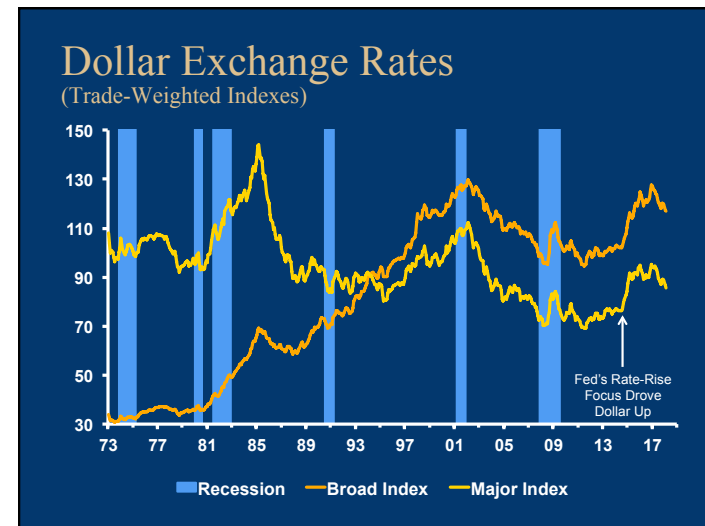
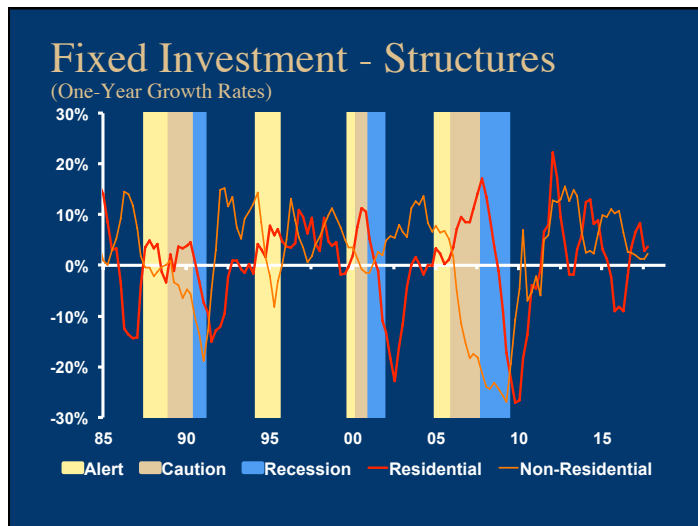
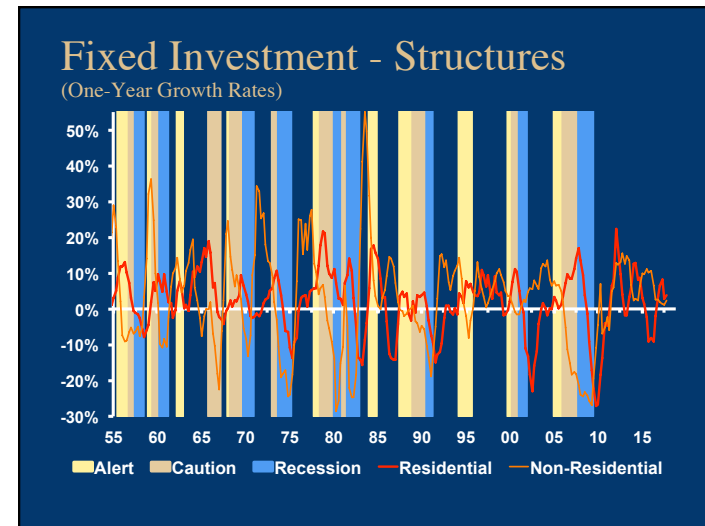
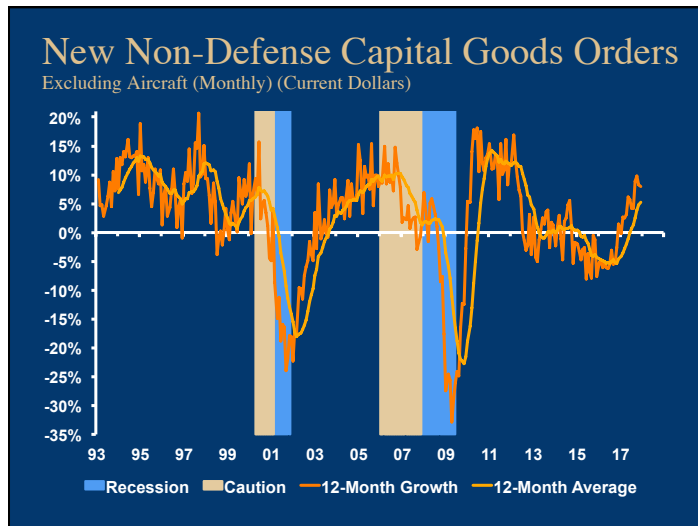
Some Sector Details

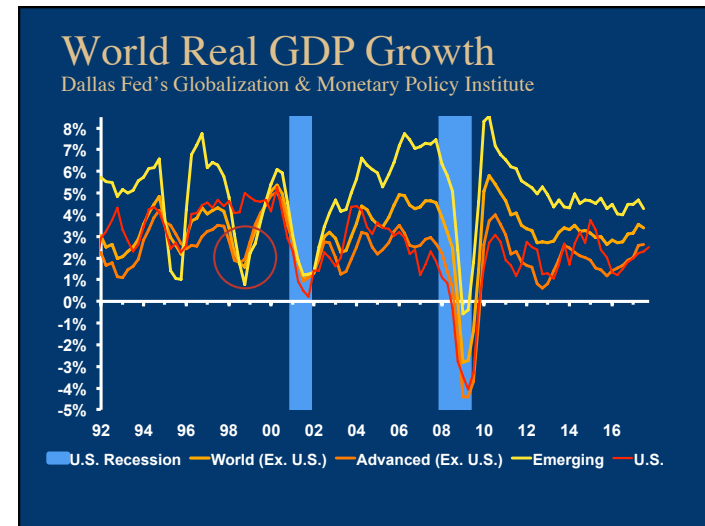
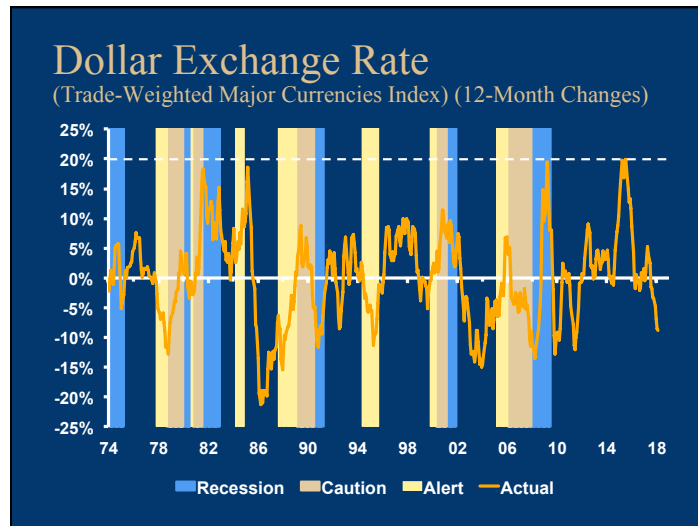
Backdrop
 Fed's Inflation Ceiling Is 2%
 Fed's Nominal Growth Ceiling Is 4%
 Implied Real Growth Ceiling Is 2%












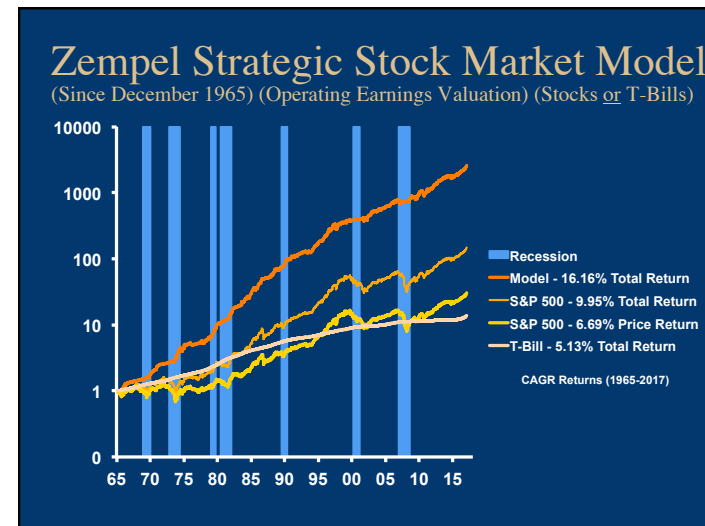



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Stock Market Model Components

- Interest-Rate Changes
- Momentum
- Valuation

Momentum and Valuation Are Bullish



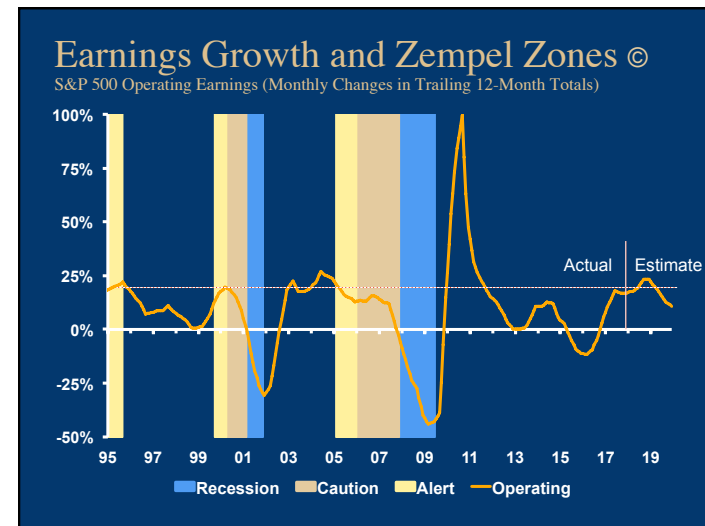
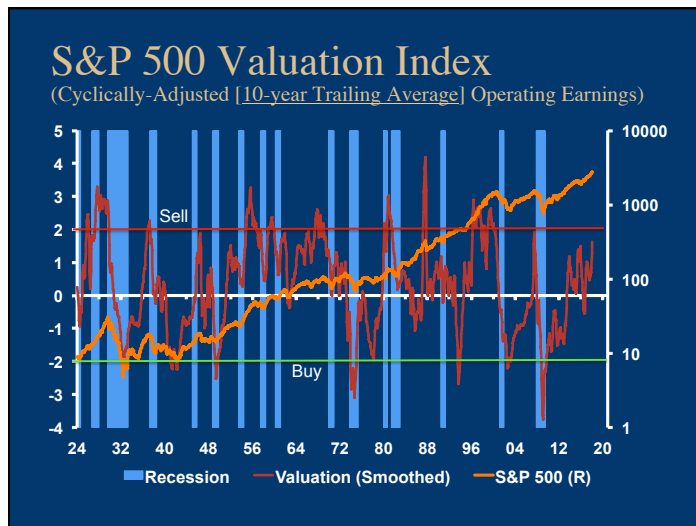
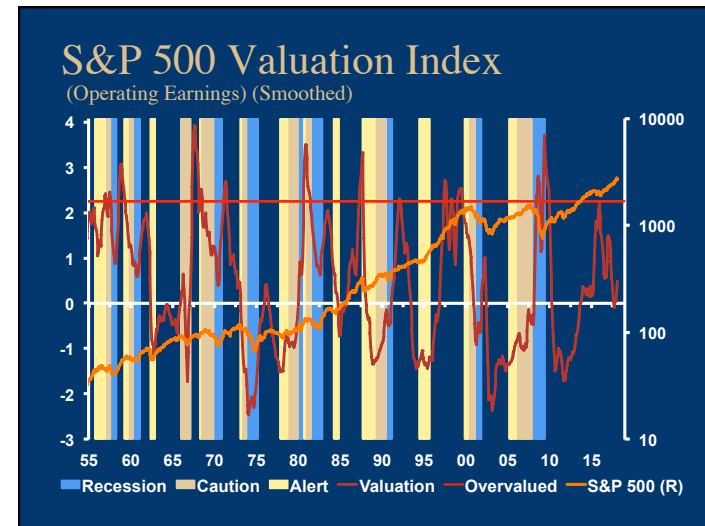



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Valuation Index Concepts

Ratio = Bond Yield / Earnings Yield
 Earnings Yield = E/P
 Valuation Index = Normalized Ratio

Bond Yield = Moody's BAA Corporate Bond Yield
 E = Trailing Year Operating Earnings
 P = S&P 500 Index
 Normalization = (Actual - Mean) / Standard Deviation



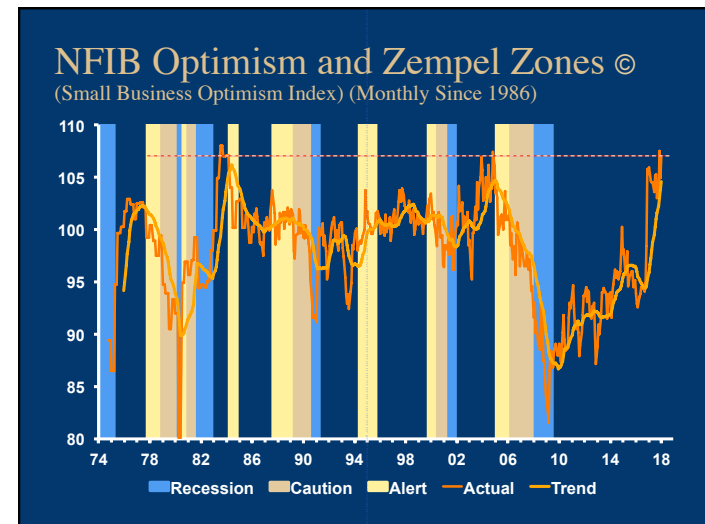
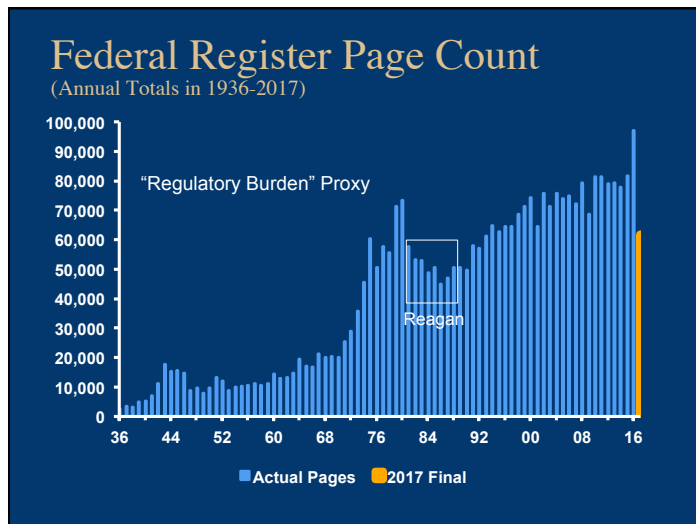
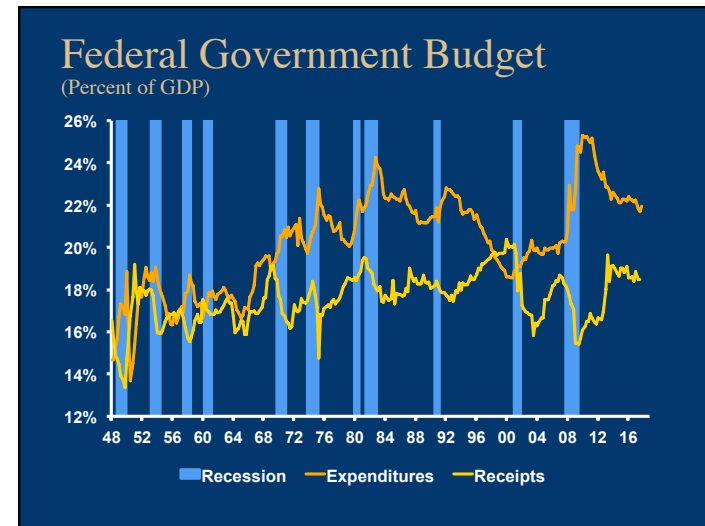



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Fiscal Policies

Federal Budget

Federal Regulations

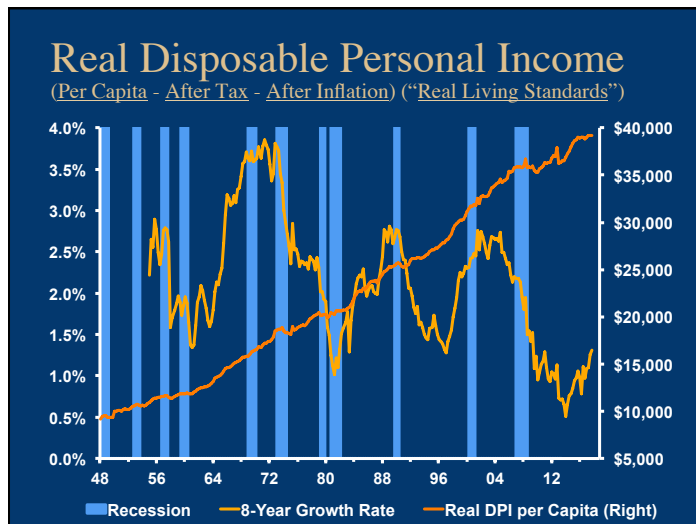
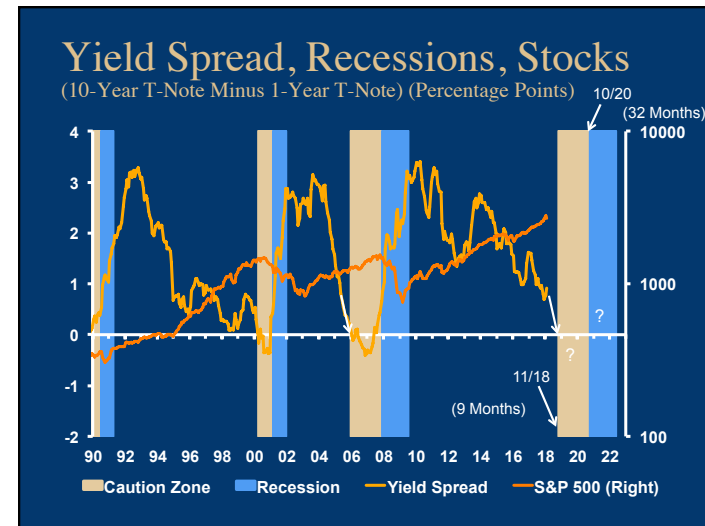




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Final Thoughts

Review
Implications





Questions...

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