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## Are Recession Fears Just Hype?

Weekly Update – February 16, 2016

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Markets ended another volatile week lower despite a bounce in oil prices. For the week, the S&P 500 lost 0.81%, the Dow fell 1.43%, and the NASDAQ dropped 0.59%.<sup>1</sup>

Amid volatile stock prices and disappointing global economic news, you may have heard a lot of chatter on media networks about whether the U.S. economy is facing another recession. In this week's market update, we wanted to share our views.

### Why is there so much talk about a recession?

With oil prices barreling below \$27 amid a global slowdown, a lot of financial commentators are talking more seriously about the potential for a U.S. recession.<sup>2</sup> These recession fears are not baseless and we're taking them seriously.

Predicting a recession is always a difficult exercise because it relies on balancing positive and negative indicators, many of which are based on old data. We heard from Federal Reserve Chair Janet Yellen last week that the Fed sees a mixed economic picture ahead. She further warned that the U.S. economy could feel the effects of economic turmoil abroad.<sup>3</sup> Though Fed economists aren't currently worried about a recession, you can bet that they are taking a close look at potential recession triggers. What are they looking at?<sup>4</sup>

- Continued weakness in oil and commodity prices that are hurting energy producers.
- Emerging market issues (particularly in China) that affect exports and U.S. firms.
- Falling demand in the manufacturing sector.
- Worries that central banks are out of bullets.

### So, what's the good news?

Despite all the doom and gloom in markets right now, the U.S. economy is not lying down and giving up. Here are a few of the things experts see in the pro-growth column:<sup>5</sup>

- The economy is approaching full employment and employers are still hiring.
- Wages are increasing, Americans are taking home bigger paychecks, and household savings are growing.
- Consumers are still spending money on big-ticket items like electronics and motor vehicles.<sup>6</sup>
- U.S. exports to Brazil, Russia, India, and China — four of the largest emerging markets — totaled just 1.14% of U.S. GDP in 2014. That's a drop in the bucket of total economic activity.<sup>7</sup>

### Will the economy slide into recession in 2016?

We don't know, but we do know that recessions don't just happen for no reason. As Yellen put it in her remarks to Congress: "The evidence suggests that expansions don't die of old age."<sup>8</sup> In short, something has to happen to cause a recession and the Fed doesn't see anything on the horizon yet.

That's not to say that the economic picture is rosy. Economists are not predicting breakout growth in 2016. However, they're also not predicting a recession. The Wall Street Journal forecasts first-quarter 2016 Gross Domestic Product (GDP) growth of 2.0%.<sup>9</sup> The Atlanta Fed is more optimistic, predicting 2.7% growth.<sup>10</sup>

However, recession risk is rising; the latest Wall Street poll of economists put the risk of a recession in the next 12 months at 21%, double where it was in June.<sup>11</sup> However, the same poll reported recession probabilities of 16% in January 2011 and 17% in January 2012.<sup>12</sup> Neither year ushered in a recession. The reality is that we won't know when a recession starts or ends until it has already happened, and there is no way to predict it with any certainty.

## **Our View**

2016 has been a very rocky road for equities, and the volatility is likely to stick with us for a while. Bad news has dominated markets for weeks and we don't know when sentiment will swing the other way. However, let's remember that the current correction is coming after years of sustained growth.

We're keeping a close eye on economic and market fundamentals and making investment decisions based on our analysis as well as our clients' individual situations. We know that corrections are uncomfortable and that you may have questions about the economy and how it may affect your portfolio. If you have questions or concerns, please reach out to us directly, we'd be happy to talk to you.

## **ECONOMIC CALENDAR:**

**Monday:** U.S. Markets Closed for Presidents Day Holiday

**Tuesday:** Empire State Mfg. Survey, Housing Market Index, Treasury International Capital

**Wednesday:** Housing Starts, PPI-FD, Industrial Production, FOMC Minutes

**Thursday:** Jobless Claims, Philadelphia Fed Business Outlook Survey, EIA Petroleum Status Report

**Friday:** Consumer Price Index

Data as of 2/12/2016	1-Week	Since 1/1/16	1-Year	5-Year	10-Year
Standard & Poor's 500	-0.81%	-8.77%	-10.71%	8.06%	4.72%
DOW	-1.43%	-8.33%	-11.12%	6.03%	4.63%
NASDAQ	-0.59%	-13.38%	-10.71%	10.88%	9.18%
U.S. Corporate Bond Index	0.00%	0.26%	-4.37%	1.30%	1.19%
International	-4.74%	-13.04%	-18.13%	-2.84%	-1.55%
Data as 2/12/2016	1 mo.	6 mo.	1 yr.	5 yr.	10 yr.
Treasury Yields (CMT)	0.26%	0.39%	0.51%	1.20%	1.74%

Notes: All index returns exclude reinvested dividends, and the 5-year and 10-year returns are annualized. Sources: Yahoo! Finance and Treasury.gov. International performance is represented by the MSCI EAFE Index. Corporate bond performance is represented by the DJCBP. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.

## HEADLINES:

**Supreme Court Justice Scalia passes away.** The conservative justice's death leaves a gap in the nation's highest court and ups the stakes in this year's presidential election. It is not clear whether it will be President Obama or his successor who will nominate the next justice.<sup>13</sup>

**Retail sales rise more than expected.** Consumers spent more than forecasted in January across many categories of goods, easing fears about consumer spending this year.<sup>14</sup>

**Consumer sentiment drops.** Worries about the economy took their toll on a measure of consumer optimism though long-term prospects remain stable.<sup>15</sup>

**Chinese exports slump in January.** China's exports – a major driver of the economy – dropped 11.2% from the previous January. The fall was larger than forecast and highlights China's growing economic woes.<sup>16</sup>



*"Fall seven times, stand up eight."*

*– Japanese proverb*

## Delicious Veggie Burgers



*Eating less meat? Try these simple veggie burgers.*

Serves 4

### Ingredients:

4 burger buns  
1/4 cup instant couscous (the kind you get in a box from the grocery store)  
1 large egg  
1/4 cup sunflower seeds  
1 15-ounce can lentils, thoroughly rinsed and drained  
1 medium carrot, peeled and grated  
1/2 medium red onion, peeled and finely chopped  
1 tablespoon fresh lemon juice  
1 teaspoon cumin  
Kosher salt and black pepper  
1 tablespoon of vegetable oil

**Chef's Tip:** Add a pinch of cayenne pepper or smoked paprika to make the burgers spicier.

### Directions:

1. Heat 1/4 cup of water in the microwave and pour it over the couscous. Let it sit for 5 minutes until absorbed and then fluff the couscous with a fork.
2. Using a food processor or blender, puree the egg, sunflower seeds, and 3/4 cup of the drained lentils. You want them to form a thick paste with very few chunks.
3. Transfer the lentil mixture to a bowl and add the grated carrot, lemon juice, onion, couscous, cumin, a pinch of salt, a pinch of pepper, and the remaining lentils. Mix thoroughly and add more salt and pepper as needed.

4. Using your hands, form four patties and refrigerate them on a plate lined with wax paper for at least an hour or until they hold together.
5. Heat the vegetable oil in a medium skillet until shiny. Lift the wax paper and flip the burgers onto the pan. Cook them in the pan until they form a brown crust and then flip once. Cook the other side until browned. Toast the buns.
6. Serve with assorted burger toppings on the toasted buns.

Recipe adapted from Kate Merker | RealSimple.com<sup>17</sup>



### Owe the IRS Money? Here's How to Pay.

If you owe federal taxes, you should pay by the April deadline even if you get an extension. Here are some options for making your payment easy:

- **Use Direct Pay.** IRS Direct Pay is a free and secure way to pay directly from your checking or savings account.
- **Pay by Debit or Credit Card.** If you don't want to link a bank account, you can use your credit or debit card. Keep in mind that you'll have to pay a processing fee and may incur interest charges.
- **Pay When You E-File.** If you file your federal tax return electronically, you can pay directly from your bank account using Electronic Funds Withdrawal.

If you can't pay the full amount that you owe now, you can set up a payment agreement to pay your taxes over time using direct debit.

For more information about filing your taxes, consult a qualified tax expert.

Tip courtesy of IRS.gov<sup>18</sup>



### Keep Your Right Foot Firm

If you're having trouble hitting powerful drives, you might need to work on keeping your body behind the ball through impact. One common problem that afflicts amateur golfers is raising the right foot before impact and shifting too much weight to the left, thus losing power.

Avoid shifting your weight too early by anchoring your right foot to the ground to keep yourself from unconsciously lifting it before your club makes contact with the ball. With your foot placed firmly, you'll be able to translate more of your body power into the ball, improving your distance and drive.

Tip courtesy of Art Sellinger | Golf Tips Mag<sup>19</sup>



### **Not Sure About That Pill? Try a Pill Identifier Tool.**

If you juggle multiple prescriptions or move your pills from their original container for convenience, you may have experienced the frustration of forgetting which pill is which. Don't risk your health by taking the wrong dose or mixing up your medications. If you can, take the pills to your pharmacy and ask for help looking up your prescription.

If you can't make it to the drugstore, you can also try using an online pill identifier. These tools let you type in any numbers or markings you see on the pill, color, shape, and any other details you notice to help you identify the drug. You can also enter in a drug name and see what the pills look like. Here are some sites where you can find pill identifiers:

<http://www.webmd.com/pill-identification/default.htm>

<http://healthtools.aarp.org/pill-identifier>

<https://www.cvs.com/drug/pill-identifier.jsp>

If you're not able to find your pill or are unsure about dosages or instructions, it's always best to check with a pharmacist or physician.



### **Making Home Improvements? Ask for Green Alternatives.**

If you are making plans for remodeling or home improvement projects, ask about environmentally friendly or locally produced alternatives. Whether it's green flooring options, recycled building materials, or high-efficiency appliances, it's worth asking your contractor or retailer about green alternatives.

Tip courtesy of Seattle PI<sup>20</sup>



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*Please share this market update with family, friends, or colleagues.*  
*We love being introduced!*

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Investing involves risk including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values.

Diversification does not guarantee profit nor is it guaranteed to protect assets

The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ. The DJIA was invented by Charles Dow back in 1896.

The Nasdaq Composite is an index of the common stocks and similar securities listed on the NASDAQ stock market and is considered a broad indicator of the performance of stocks of technology companies and growth companies.

The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) that serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indexes from Europe, Australia and Southeast Asia.

The Dow Jones Corporate Bond Index is a 96-bond index designed to represent the market performance, on a total-return basis, of investment-grade bonds issued by leading U.S. companies. Bonds are equally weighted by maturity cell, industry sector, and the overall index.

The S&P/Case-Shiller Home Price Indices are the leading measures of U.S. residential real estate prices, tracking changes in the value of residential real estate. The index is made up of measures of real estate prices in 20 cities and weighted to produce the index.

The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

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Past performance does not guarantee future results.

You cannot invest directly in an index.

Consult your financial professional before making any investment decision.

Fixed income investments are subject to various risks including changes in interest rates, credit quality, inflation risk, market valuations, prepayments, corporate events, tax ramifications and other factors.

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<sup>1</sup> <http://finance.yahoo.com/q/hp?s=%5EGSPC&a=01&b=8&c=2016&d=01&e=12&f=2016&g=d>

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<http://finance.yahoo.com/q/hp?a=01&b=8&c=2016&d=01&e=12&f=2016&g=d&s=DOW%2C+&q=1>

<http://finance.yahoo.com/q/hp?a=01&b=8&c=2016&d=01&e=12&f=2016&g=d&s=%5EIXIC%2C+&q=1>

<http://finance.yahoo.com/q/hp?a=01&b=1&c=2016&d=01&e=5&f=2016&g=d&s=%5EDJI%2C+&q=1>

<http://finance.yahoo.com/q/hp?a=01&b=1&c=2016&d=01&e=5&f=2016&g=d&s=%5EIXIC%2C+&q=1>

<sup>2</sup> <http://money.cnn.com/2016/02/11/investing/oil-price-crash/>

<sup>3</sup> <http://fortune.com/2016/02/10/yellen-economy-congress-federal-reserve/>

<sup>4</sup> <http://fortune.com/2016/02/11/recession/>

<sup>5</sup> <http://www.cnbc.com/2016/02/14/fed-ecb-pboc-need-to-be-cheerleaders-for-their-economies.html>

<sup>6</sup> <http://www.reuters.com/article/us-usa-economy-idUSKCN0VL1CT>

<sup>7</sup> <https://www.census.gov/foreign-trade/Press-Release/2015pr/12/exh4as.xls>

<http://data.worldbank.org/indicator/NY.GDP.MKTP.CD>

<sup>8</sup> <http://www.cnbc.com/2016/02/11/fed-chair-yellen-theres-always-some-chance-of-recession.html>

<sup>9</sup> <http://projects.wsj.com/econforecast/#ind=gdp&r=20>

<sup>10</sup> <https://www.frbatlanta.org/cqer/research/gdpnow.aspx?panel=1>

<https://www.frbatlanta.org/-/media/Documents/cqer/researchcq/gdpnow/GDPTrackingModelDataAndForecasts.xlsx?la=en>

<sup>11</sup> <http://projects.wsj.com/econforecast/#qa=20160201002>

<sup>12</sup> <http://projects.wsj.com/econforecast/#e=52&ind=recession&r=60>

<sup>13</sup> <http://www.cnn.com/2016/02/13/politics/antonin-scalia-supreme-court-replacement/>

<sup>14</sup> <http://www.foxbusiness.com/markets/2016/02/12/retail-sales-rose-more-than-expected-in-january.html>

<sup>15</sup> <http://www.foxbusiness.com/markets/2016/02/12/consumer-sentiment-dips-in-february.html>

<sup>16</sup> <http://www.cnbc.com/2016/02/14/china-releases-trade-data-for-january-yuan-denominated-and-us-dollar-imports-and-exports.html>

<sup>17</sup> <http://www.realsimple.com/food-recipes/browse-all-recipes/veggie-burgers-0>

<sup>18</sup> <https://www.irs.gov/uac/Ways-to-Pay-Your-Tax-Bill>

<sup>19</sup> <http://www.golftipsmag.com/instruction/driving/quick-tips/anchor-your-right-foot.html>

<sup>20</sup> <http://www.seattlepi.com/news/article/52-tips-for-living-green-1269861.php>