MARKET UPDATE

***e*Research Corporation** is pleased to provide an article by **Financial Sense**.

The article provides a market update. It is entitled, "Enjoy the Final Ride, Because the Expansion Is Nearing an End".

The article is presented on the next page, and it also can be accessed at the following link:
https://www.financialsense.com/fs-staff/big-picture-enjoy-final-ride-because-expansion-nearing-end?utm_source=newsletter&utm_medium=email&utm_campaign=weekly

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Enjoy the Final Ride, Because the Expansion Is Nearing an End

March 2, 2018

We have seen volatility return, and we just rode through the first 10% correction in 2 years. This time on our weekly Big Picture segment, Financial Sense Newshour discussed where we are in the economic expansion and what we should plan for in the coming quarters.

Economic Growth Still Intact

The current economic expansion has run 8 years and 9 months long. Another year or two and it could end up being the longest economic expansion on record. If the stock market holds up as well, this could be longest stock bull we have ever seen.

Fixed investment is going up and consumer sentiment is at a record level. Productivity is starting to turn around, and the savings rate has declined from 6% to 2%.

Consumers are feeling more positive about their employment and financial situation, and they are also bringing down their savings, which translates into more spending.

On top of these positives, we are also seeing economic stimulus in the form of tax cuts and increased government spending to the tune of $300 billion, which we don't normally see at the end of a business cycle.

"These kinds of things are all coming into play at the same time," said Financial Sense's Jim Puplava. "The end result is all of this argues well for further economic expansion. … However, here is what you have to keep in mind. This is a late-cycle economic expansion, and it is going to bring about a change in Fed policy."

Inflation Set to Rise, Interest Rates Will Follow

Last year was the first year in which the Fed actually raised interest rates three times, and it is widely anticipated they will go three times this year or possibly four if inflation picks up.

"Investors need to understand, the time to be complacent about your investments in the market is over," Puplava said. "The Fed is reacting differently when there is slack in the economy, and that slack has been exhausted. They act differently when inflation is rising closer to their target."

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In general, it is important to understand that the Fed is out of the business of smoothing over equity markets with stimulus.

Recent Fed minutes have reinforced the belief that higher rates are coming with language that stated, “Further gradual rate hikes are necessary.”

Even if the Fed stops in June, if they continue with quantitative tightening through balance sheet tightening, they are still raising interest rates.

“Basically, as we have seen in the past, every recession has been brought about by a Fed rate-raising cycle,” Puplava said. “It is not a precise science. … There are already stresses in the credit system. They never know until they break something.”

To gauge quantitatively the tightness or looseness of Fed monetary policy relative to economic growth and market rates, we have developed an index to help manage client portfolios accordingly. Currently, it shows the Fed is still relatively loose and not a threat to the market or economy. Should this index rise in the months or quarters ahead (meaning monetary policy and financial conditions are becoming restrictive relative to economic growth), we will raise the alarm and become more defensive in our client portfolios.

Source: Bloomberg, [Financial Sense Wealth Management]

Leadership Likely to Shift

Right now, we are likely to see commodities and financials move into leadership positions.

“I would watch the dollar, I would watch oil, I would watch copper, and I would watch gold,” Puplava said. “The economy is going through a second wind. … Just when you think it is going to be tuckered out, all of a sudden it is getting a new form of stimulus with government spending and tax cuts. All of that is giving us a sort of late-cycle expansion.”

Growth is likely to pick up in the first half, and we will see a transition of leadership in the market.

Leadership in the Consumer Discretionary, Industrial, and Tech sectors is likely to move to Financials and Commodities producers.

Investors should position themselves for the late phase or the final phase of the business cycle, Puplava stated and should look to move into the emerging new sector leadership.

"You might want to raise some cash and get a little more defensive to have some spare powder," Puplava said. "If you are in bonds, you definitely want to shorten your maturities. … It is time to enjoy the final ride of this economic expansion and bull market, because this too will all come to an end, sooner or later."

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