Welcome to the KEEP Safe Investments Quarterly Newsletter

3rd Quarter 2017

Buy the Rumor, Sell The News

It's been a good quarter for global equity markets, with the economic data consistently pointing to a healthy global economy. In the U.S., job vacancies hit the highest level since 2000. Across the globe, central bankers have indicated they want to gradually reduce the level of monetary policy stimulus in place. The U.S. Federal Reserve (the Fed) announced last week that it will start the process of "quantitative tightening". This reduction is the reverse of what the Fed did post the 2008 credit crisis. The Fed is now trying to reduce their balance sheet by decreasing the amount and the type of bonds they are purchasing. The end goal of the Fed is to get the U.S. economy back to normal levels without the help of the central bank. The Fed has also strongly hinted that another interest rate hike is in the cards for mid-December. Across the pond, the Bank of England (BoE) has also strongly suggested that it will raise interest rates before the close of 2017.

U.S. equity markets have had a remarkably smooth journey so far this year, with the third quarter proving to be no exception. Solid earnings and economic data helped support major indexes this past summer, with trading largely remaining calm despite disruptive hurricanes and threats between the US and North Korea. The S&P 500 finished September much like it spent the past three months – quietly grinding higher. The S&P 500 rose 4% to fresh records in the quarter, but the index's average daily move during the period was 0.3%, the lowest since 1968. The traditional "sell in May and go away" would have missed out on strong returns over the summer. The biggest stumble the U.S. equity markets faced this year was a less than 3% pullback.

Healthy U.S. stock market gains, with low volatility are being driven by the fact that investors are seeing decent corporate earnings growth with little sign of any short-term recession risk. Consumer confidence remains resilient and business investments are increasing. There is also renewed talk of tax reform from Washington, which investors feel could further spur the growth of the U.S. economy. Even if Washington fails to deliver on the tax reform, equity markets often rally on just the expectation of one. Hence the saying, "buy the rumor, sell the news".

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Market Gains

Some of the biggest gainers in the past three months were energy companies, boosted by the rising price of oil. U.S.-traded crude is up 12% since the end of June—to $51.67 a barrel—lifted by unexpectedly strong demand and signs of slowing production. Energy companies in the S&P 500 finished the quarter up 6%. All but one of the 11 sectors in the S&P 500 ended the quarter higher. Consumer-staples stocks finished in the red.

Company earnings expectations for the end of 2018 are lower today than they were before the US election. Markets have rallied since the election, predominantly because of better US and global growth this year, not because they expect fiscal stimulus.

One result of the falling expectations for fiscal stimulus in the U.S., and improving growth outside the U.S. has been the U.S. dollar has fallen this year, a trend that has continued this quarter.

The weaker dollar, improving emerging market growth and rebounding earnings have helped emerging market equities to deliver very strong returns this year. In Japan, equities had a strong quarter as the imports showed a strong improvement. In Europe, growth has continued to improve as well with strong corporate profit growth helping out. Outside of core Europe, both Italy and Spain have been bouncing back with lower deflation risks and an improved growth picture. Mario Draghi, the European Central bank (ECB) President, is following the US's lead in reducing the amount of bonds purchases and slowing decreasing its balance sheet. While less Quantitative Easing (QE) from both the Fed and the ECB could put upward pressure on bond yields, this could give the financial stocks a boost.

UAL NEWS:

News from the Standards Meeting in Denver:

- Open enrollment for 2018 is October 9 - October 27
- UAL is getting between 3-8 767-300 AC from Hawaiian airlines.
- Hiring will resume in early January.
- UAL is not buying Jet Blue.
- Works are in progress to obtain "several" A320 from a Chinese carrier.

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3rd Quarter Wrap Up, 4th Quarter Outlook

Overall, despite the political noise, markets continued to focus on the improving economic fundamentals. While the world worried about North Korea, markets cheered rising company earnings and improving global growth. Headlines focused on the rise of the far right in Germany, but markets focused instead on the re-election of Chancellor Merkel and the health of the German economy. Even with the recent violence in Catalonia, market reaction has been muted. Politics matters, but investors need to be able to tune out the noise and maintain a razor-sharp focus on the outlook for company profits.

When we take a step back and filter out the sometime deafening noise of political distraction in the news, we see a world where the risks to economic and corporate profit growth in the final part of this year look low. Markets will have to contend with the gradual removal of some of the monetary stimulus that has supported them.

In the medium term, as this economic expansion matures and monetary policy tightens, the risk of recession naturally rises but for now none of the signs of that historically warned that a global recession is imminent are flashing red.

We therefore remain positive on the outlook for global equity markets, albeit with a more neutral view on U.K. equities given the more uncertain outlook. We expect a gradual rise in the U.S. core inflation and the gradual reduction of monetary stimulus to cause government bonds to underperform equities. It's not at all unusual for equity returns to be very strong in the later stage of an economic expansion. While no expansion lasts forever, we think this one has a bit further to go however, we will watch particularly carefully for any signs that the currently rosy global growth picture is starting to deteriorate.

KSI Fun Facts:

- **Retirement** - Estimated percentage of U.S. workers who have access to an employer-sponsored 401(K) plan or similar defined contribution plan: 79%. Of those U.S. workers the amount that actually contribute to their plan: 41%
  Source: Bloomberg.com

- **Birthdays** - The most common month to be born in the United States is September. September 9 is the most common day, and December 25 is the least common day.
  Source: dailyviz.com, based on data from the U.S. Nation Center for Health Statistics

- Left Handers Day was August 13th, strange fact: four of the past 8 presidents were left-handed: Gerald Ford, George H.W. Bush, Bill Clinton, Barack Obama.
  Source: Parade Magazine

About KEEP Safe Investments

KEEP Safe Investments is a Registered Investment Advisor. We are dedicated to enhancing the financial lives and enriching retirement funds of our clients. We are a single fee, non-commission based firm.

As a privately held asset and financial advisory firm, we endeavor to offer independent, unbiased financial advice focusing on each individual client's retirement goals.

Kristi Berge

Founder and CEO of KEEP Safe Investments, LLC. Kristi has worked in the financial industry for 15 years at Morgan Stanley and the Guinness Family Office (Iveagh Ltd).

A graduate of Columbia University with degrees in Economics and Mathematics, Kristi is fluent in French. Upon graduation, she joined Morgan Stanley where she worked on the bond sales and trading desk in Paris, London and New York. Kristi returned to London and joined Iveagh Ltd to work on the Investment team covering a range of products: equities, fixed income, currencies, commodities, alternative investments and property.

Kristi holds the Series 63 and Series 65 as well as the SFA and Life Insurance license.

Carin Johnson

Carin serves as Chief Compliance Officer for KEEP Safe Investments. Carin is charged with being an independent and objective resource that oversees implementation of KEEP Safe Investment's compliance and regulatory efforts.

Carin's experience in the financial industry spans more than 20 years. Previously serving as a Financial Center Manger with Wells Fargo Bank, N.A., she was responsible for the overall operation and success of the branch. As a managing Assistant Vice President, she coached her team in service, sales and financial guidance. Carin was a prominent face in the Wells Fargo community, cultivating relationships with many of the area's businesses and leading her region in performance.

Carin attended Northampton Community College and East Stroudsburg University.

Sabina Reeder

Sabina works as Office Manager at KEEP Safe Investments.

She spent 14 years working in Education and made the transition to finance in 2016. Sabina is originally from Poland and earned her degree from Catholic University of Lublin. She recently obtained her Life Insurance license. She enjoys the outdoors, reading and dancing.

Contact Us

As always, please do not hesitate to contact us if you have any questions or concerns.

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