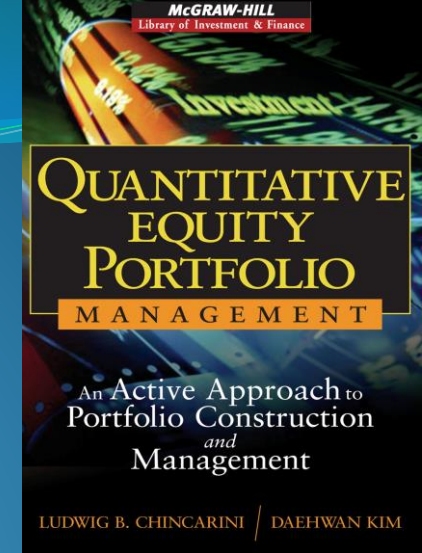


# The Year Ahead



Ludwig B. Chincarini, Ph.D., CFA  
University of San Francisco  
United States Commodity Funds

**December 1, 2016**

- Thank you for coming. Thanks to Cantor Fitzgerald and Al Neubert and United States Commodity Funds.



## OUTLINE

- a. The 2016 Presidential Election
- b. What was hot (& not) in 2016.
- c. The Markets in 2016.
- d. The Economy in 2016.
- e. The Fed in 2016.
- f. The Expectations for the Market, Economy, and Fed in 2017.

## The 2016 Presidential Election

Did the polls predict it?

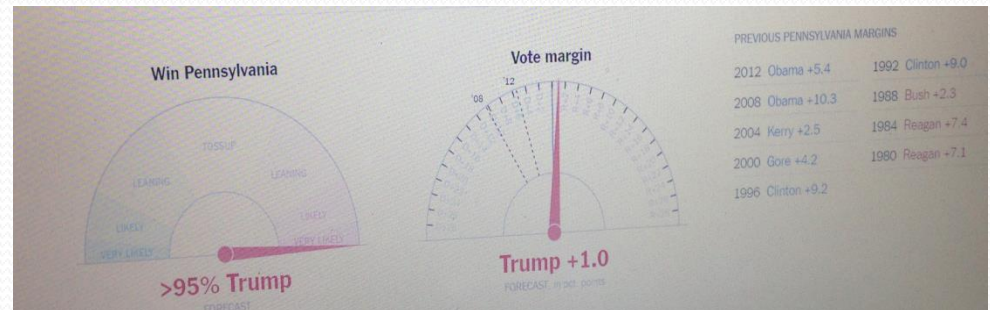
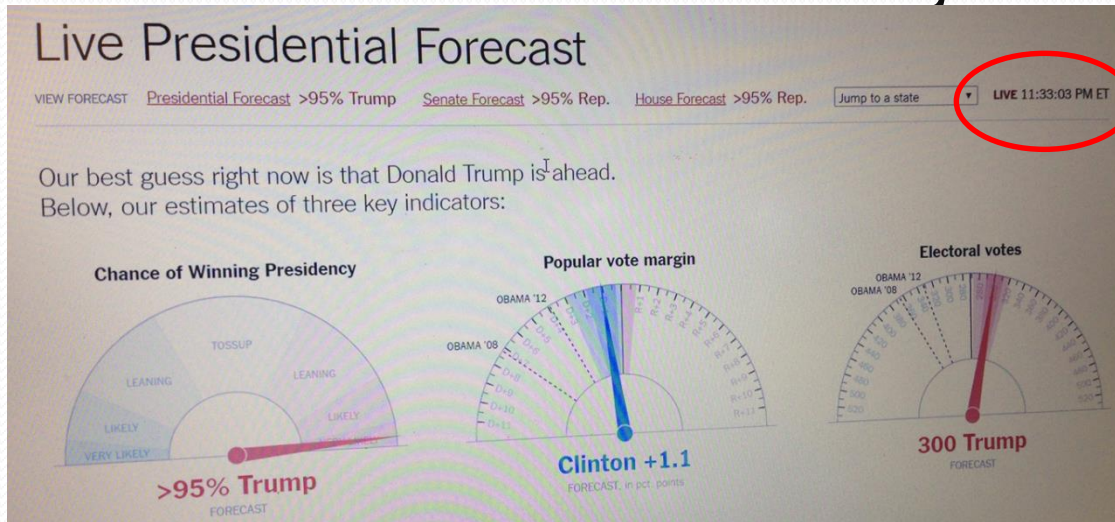
- IBD (most accurate last 3) got it right.
- Trump Team believed Michigan and Pennsylvania were in play. They were right.
- Electoral strategy paid off.
- Lots of well-known people got it wrong – overconfidence.

# The 2016 Presidential Election

	Polls			
	Trump (+), Clinton (-)	Percent for Trump	Who was Right	Actual
<b>National</b>	-3.3	9%	IBD*	0.6
Florida	0.2	33%	Trafalgar, Remington	1.3
Ohio	3.5	100%		8.6
North Carolina	1	40%	Trafalgar, WRAL	3.8
Nevada	0.8	50%	Emerson, Gravis	2.4
New Hampshire	0.6	60%	Emerson, WNUR	0.2
Pennsylvania	1.9	20%	Trafalgar	1.2
Michigan	3.4	20%	Trafalgar	0.3
Wisconsin	6.5	0%	No one	1

\*IBD was closest poll in prior 3 elections for President.

# The 2016 Presidential Election – Although News Channels were in shock – reality was available



## The 2016 Presidential Election:

### What might do well?

1. Banks (less regulation, tax reform, interest spread)
2. Pharma (no constraints on prices)
3. Consumer Durables (lower taxes)
4. Defense (pro defense)
5. Oil and Gas (less regulation, build jobs)
6. Coal

### What might not do well?

1. Clean Energy
2. Crowded Yield Seeking sector (e.g. Staples, Utilities)
3. Bonds

## The 2016 Presidential Election: What to Buy/Sell?

	Six Months Prior to Election		November 7 - November 15	
Banks	9.62%	0.43%	<b>14.24%</b>	
Pharma	-2.51%	-0.11%	<b>3.30%</b>	
Consumer Discretionary	-0.98%	-0.04%	<b>1.92%</b>	
Defense	7.09%	0.32%	<b>8.19%</b>	
Oil & Gas	-1.62%	-0.07%	<b>1.75%</b>	
Coal	59.28%	2.63%	<b>18.32%</b>	
Clean Energy	-1.89%	-0.08%	<b>-7.51%</b>	
Consumer Staples	-1.22%	-0.05%	<b>-3.40%</b>	
Utilities	-0.08%	0.00%	<b>-4.38%</b>	
Bonds	1.28%	0.06%	<b>-6.34%</b>	
*Six-Month Figures are normalized to 8-day period in 2nd column				



## What was hot (& not) in 2016?

Table 1. 10 Winners and 10 Losers in 2016 (Russell 3000)

	Market Cap (Billions)	Last Price	Return in 2016 (%)
WINS US Equity	1.98	99.0	725
CLF US Equity	1.71	7.4	369
CC US Equity	4.12	22.7	328
CDE US Equity	1.84	9.8	294
GMRE US Equity	0.13	7.3	289
CWEI US Equity	1.95	111.5	277
FMSA US Equity	1.91	8.6	264
X US Equity	4.93	28.6	263
AKS US Equity	2.49	8.0	255
SXC US Equity	0.74	11.6	234
ADPT US Equity	0.22	10.6	-81
DVAX US Equity	0.18	4.7	-81
MRTX US Equity	0.12	6.0	-81
AVGR US Equity	0.09	4.1	-82
FNBC US Equity	0.12	6.3	-83
INFI US Equity	0.06	1.2	-84
NVAX US Equity	0.35	1.3	-85
IMGN US Equity	0.18	2.1	-85
TKAI US Equity	0.02	1.1	-88
GALE US Equity	0.04	3.6	-88

# The Markets in 2016

		<u>2016 Return</u>	<u>Since Election</u>
<b>Equities</b>			
	US Stocks	4.3%	2.1%
	Large	4.3%	2.3%
	Small	5.0%	9.2%
	Value	6.3%	3.5%
	Growth	2.3%	1.2%
	World Ex-US	-2.5%	-1.2%
	Emerging	12.7%	-5.3%
<b>Bonds</b>			
	US 1-Year	0.7%	-0.1%
	US 5-Year	3.9%	-1.8%
	US 10-Year	6.6%	-3.5%
	US 30-Year	12.9%	-6.3%
	US Treas Port	9.8%	-5.7%
	US Corp Port	8.3%	-2.1%
	World Ex-US	8.6%	-4.0%
	Emerging	13.6%	-4.0%
<b>Real Estate</b>			
	USA	0.4%	-1.6%
<b>Commodities</b>			
	Oil	-5.7%	1.4%
	Gold	19.8%	-4.3%
	Natural Gas	-13.3%	-2.9%
	Basket Commodities	4.2%	-2.9%

\*2016 Return is from December 31, 2015 to November 7. After election is Nov 7 - November 16, 2016

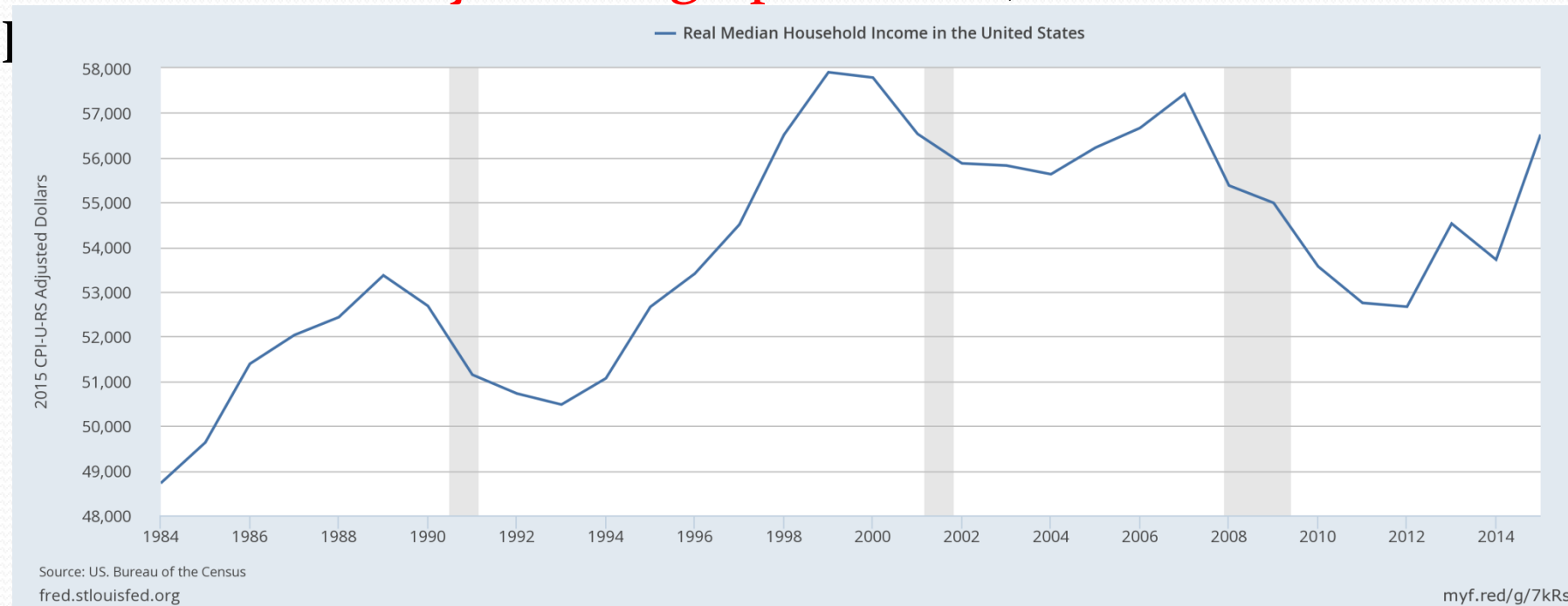
# The World Economy in 2016

Screen Printed

99) Export To Excel	Global Economy Watch								
	Annual GDP	GDP		Surplus/Def		CPI		Jobless	
	(BLN USD)	%YoY	Month	% GDP	Month	%YoY	Month	Rate	Month
1) Americas									
11) United States	17,947.00	1.50	9/16	-3.10	9/16	1.60	10/16	4.90	10/16
12) Brazil	1,774.73	-3.78	6/16	-9.42	9/16	7.87	10/16	8.20	2/16
13) Canada	1,550.54	1.30	8/16	-1.30	12/17	1.50	10/16	7.00	10/16
14) Mexico	1,144.33	1.95	9/16	-3.98	6/16	3.06	10/16	4.14	9/16
15) Argentina	583.17	-3.40	6/16	-0.55	6/16	14.30	10/15	9.30	6/16
2) Europe/Africa/ME									
21) Eurozone	11,539.74	1.60	9/16	-2.10	12/15	0.50	10/16	10.00	9/16
22) Germany	3,355.77	1.70	9/16	0.70	12/15	0.80	10/16	6.00	10/16
23) United Kingdom	2,848.76	2.30	9/16	-4.30	12/15	0.90	10/16	4.80	9/16
24) France	2,421.68	1.10	9/16	-3.50	12/15	0.40	10/16	10.00	9/16
25) Italy	1,814.76	0.90	9/16	-2.60	12/15	-0.20	10/16	11.52	6/16
3) Asia/Pacific									
31) China	10,866.44	6.70	9/16	-3.44	12/15	2.10	10/16	4.05	6/16
32) Japan	4,123.26	0.90	9/16	-4.98	12/17	-0.50	9/16	3.00	9/16
33) India	2,073.54	7.10	6/16	-6.85	12/16	4.20	10/16	7.10	12/15
34) S.Korea	1,377.87	2.70	9/16	0.80	12/17	1.30	10/16	3.70	10/16
35) Australia	1,339.54	3.30	6/16	-0.91	12/17	1.30	9/16	5.60	10/16
36) Indonesia	861.93	5.02	9/16	-1.76	12/12	3.31	10/16	5.50	2/16
4) World									

Australia 61 2 9777 8600 Brazil 5511 2595 9000 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000  
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2016 Bloomberg Finance L.P.  
 SN 114576 EST GMT-5:00 G619-1464-0 18-Nov-2016 22:53:59

# The U.S. Economy Leading up to 2016 (Growth in

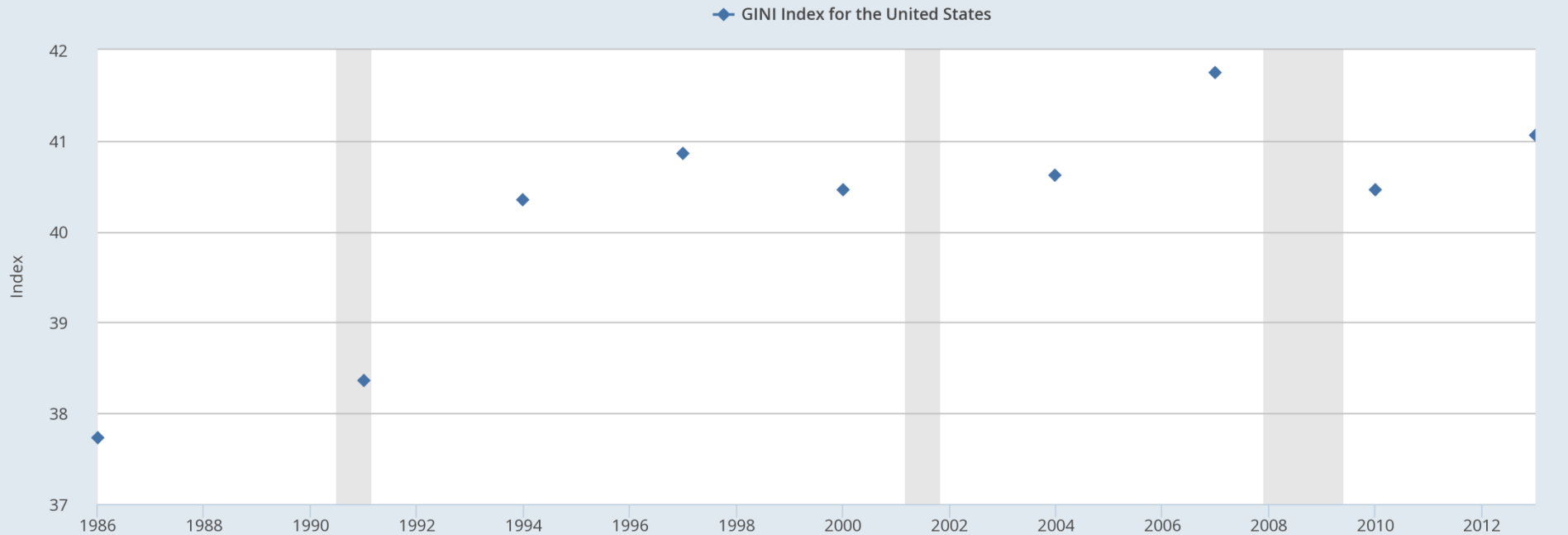


**Table 1. Annualized Change in Median Household Income**

	USA	FLORIDA	OHIO	PENNSYLVANIA	MICHIGAN
2007-2015	-0.20%	-0.87%	-0.64%	1.09%	-0.50%
1998-2015	-0.15%	-0.27%	-0.33%	0.73%	-1.18%

Source: FRED and Bureau of the Census

# The U.S. Economy in 2016 (Income Distribution)



Source: World Bank  
fred.stlouisfed.org

myf.red/g/bODu

# The U.S. Economy from 2007 – 2014 Why under trend growth?

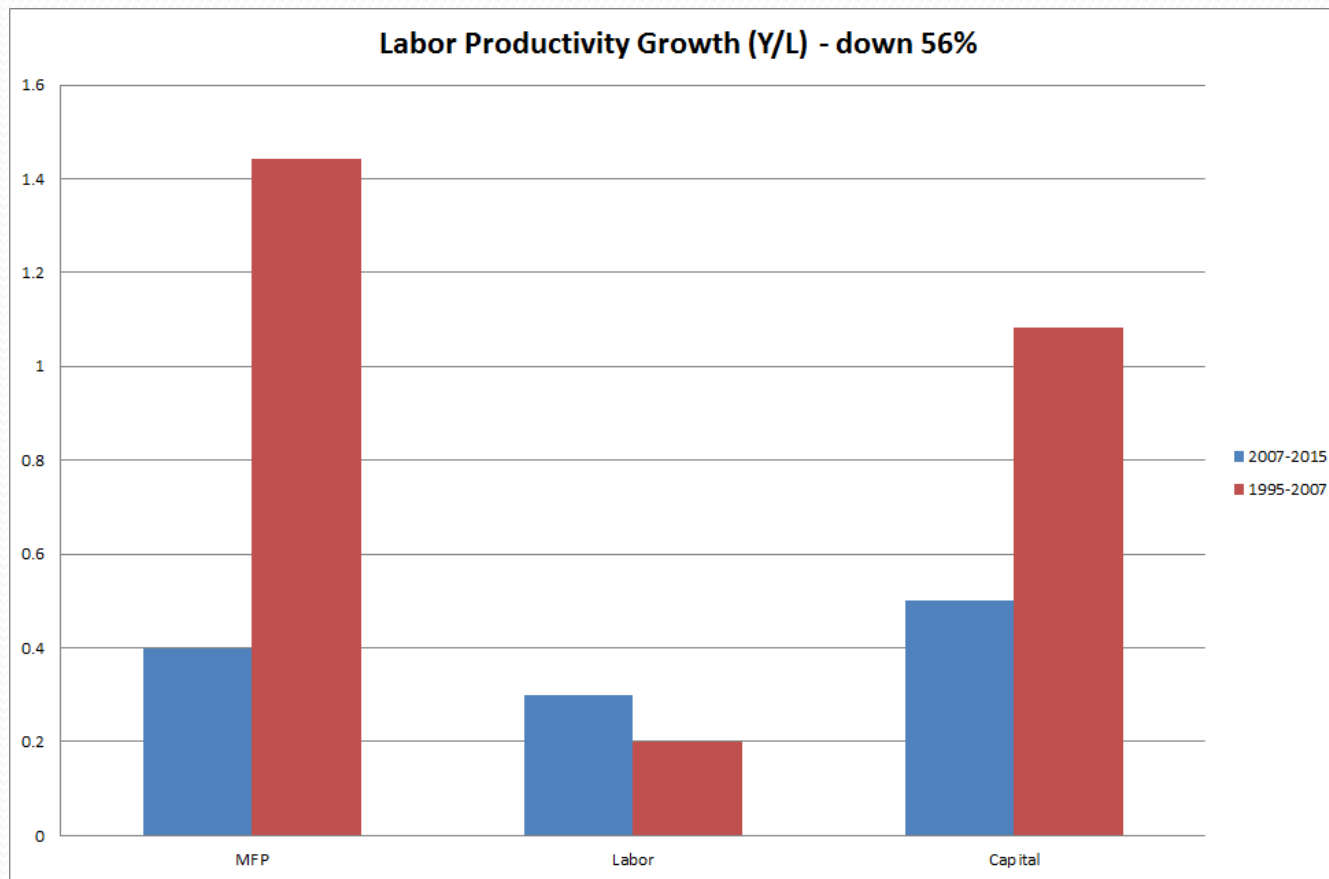
Contributors to lack of growth: TFP, Capital, Labor Participation, and declining working pop.

<i>Component</i>	<i>Shortfall, percent</i>
Total factor productivity	4.4
Capital input	4.0
Population 16 and over	2.2
Labor-force participation rate	3.6
Hours per worker	-1.7
Ratio of private to total hours of work	-0.1
Labor quality	-0.6
Private real GDP	11.7

Source: Hall (2016)

## The U.S. Economy Recently

- Productivity down 56% (TFP – 72%, Capital – 54%)



Source: BLS

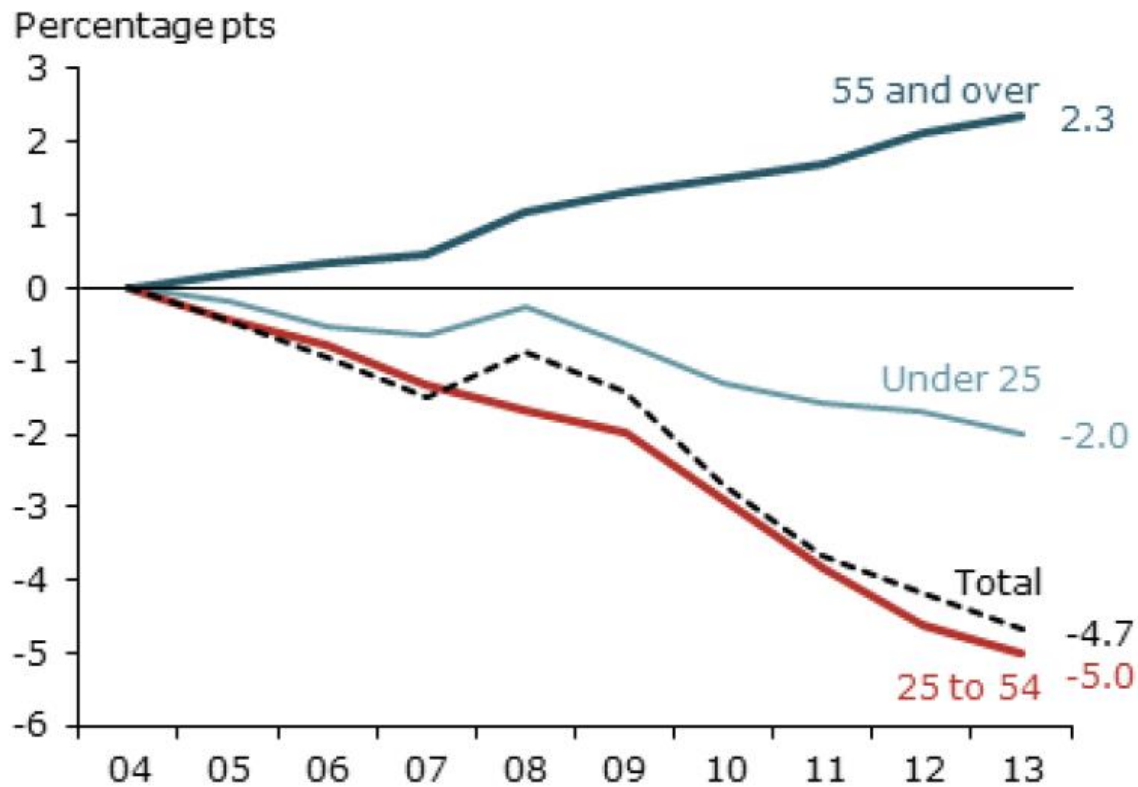
## The U.S. Economy Recently

- Labor Force participation at 62.7% (2015) compared to average of 2001-2008 (66%). Equivalent to 8.2 million people.
- People to work could lead to growth.



# The U.S. Economy Recently

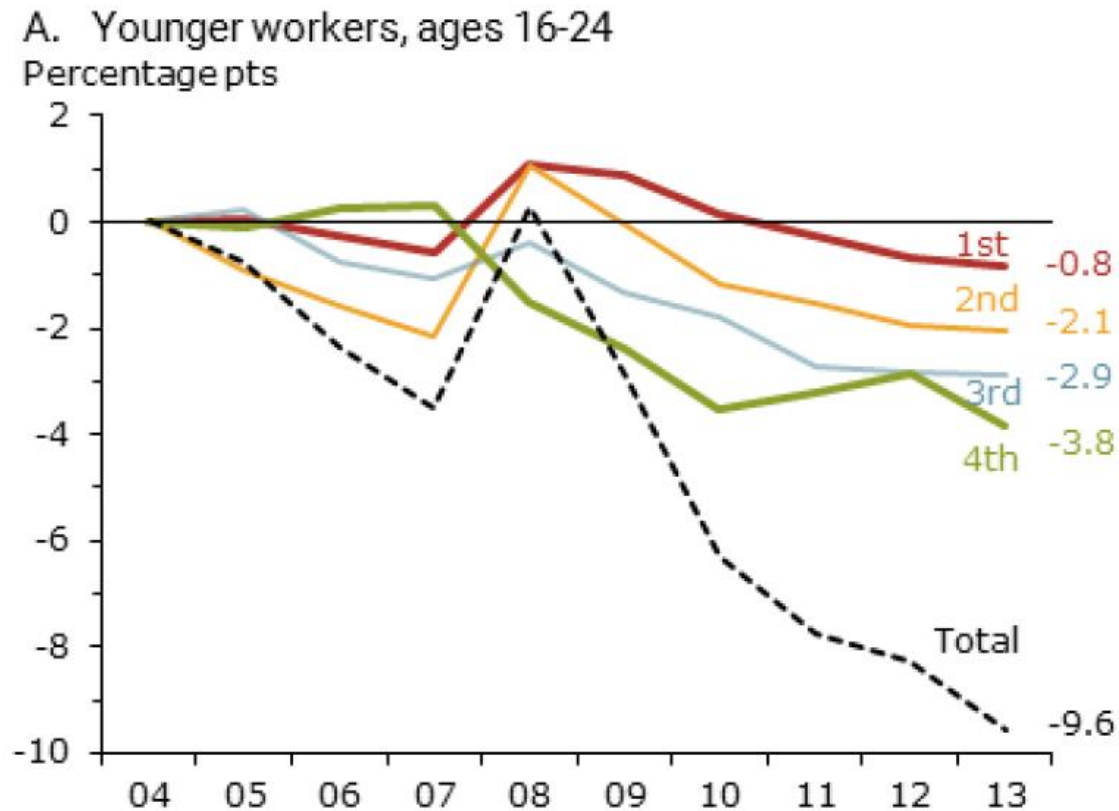
Contribution by age group to changes in labor participation



Source: FRBSF

# The U.S. Economy Recently

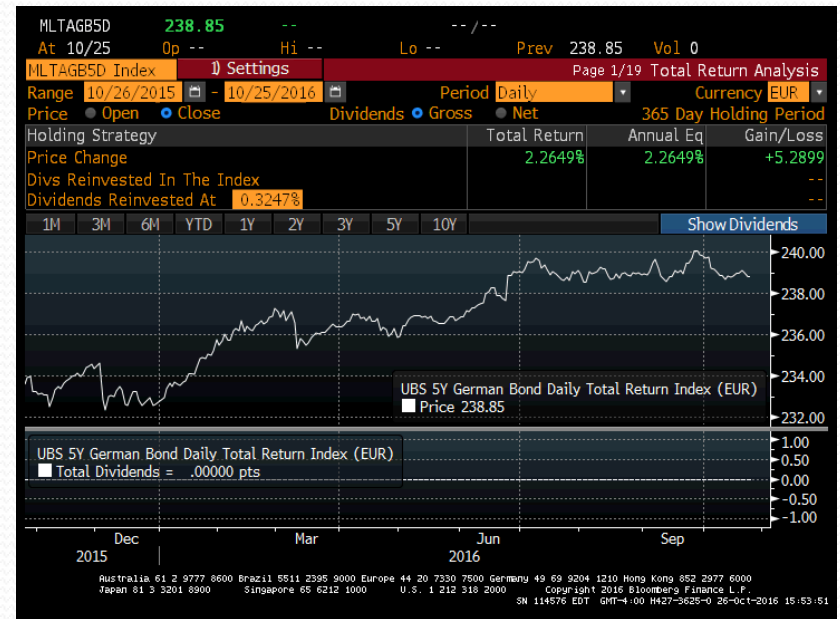
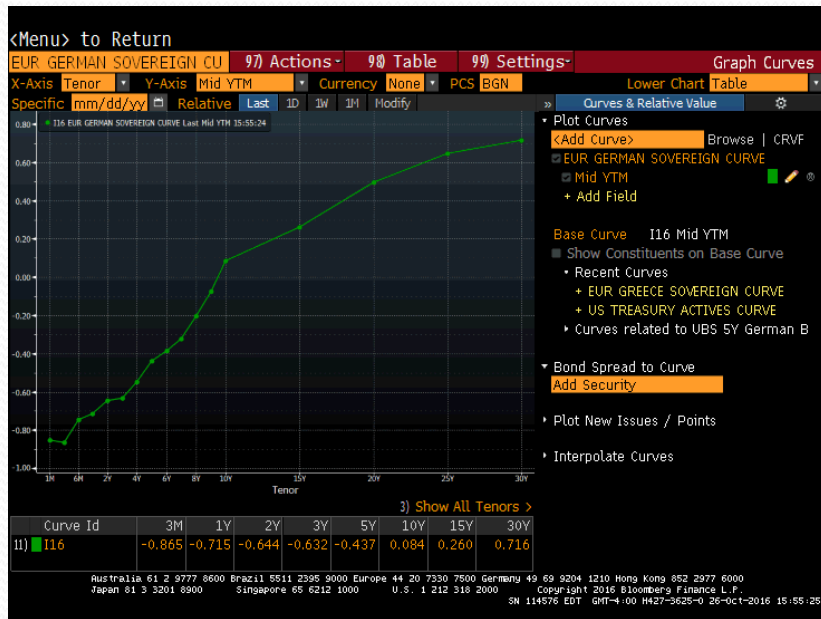
## Change in labor force participation by household income quartile



Source: FRBSF

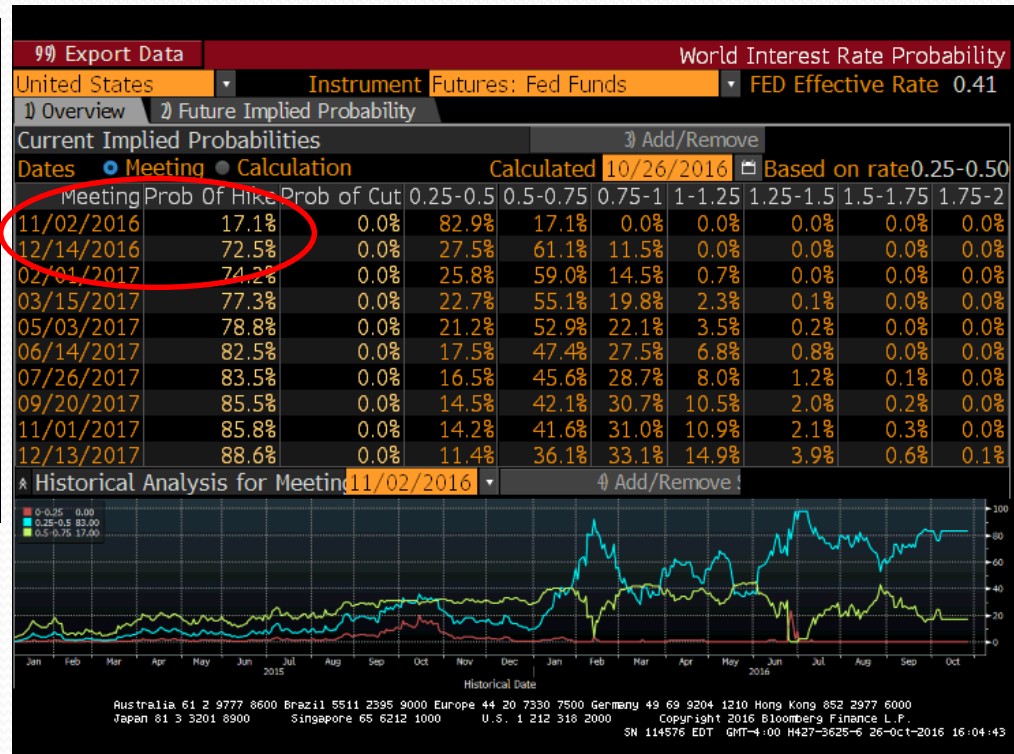
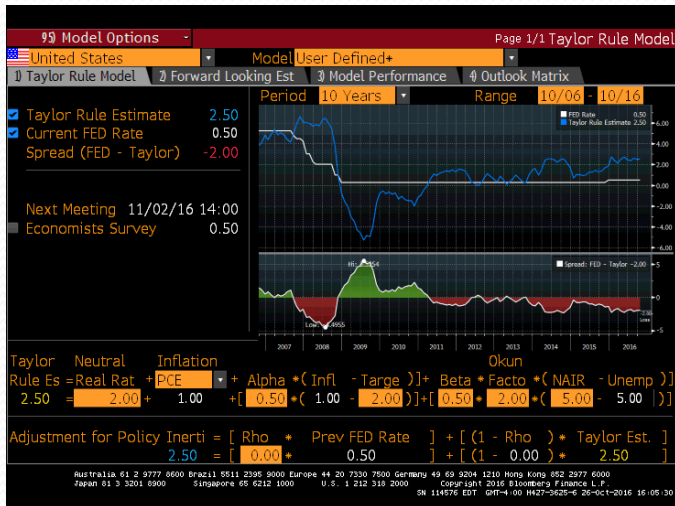
# The Fed in 2016

- Low interest rates and negative interest rates still were good trades in Germany and USA

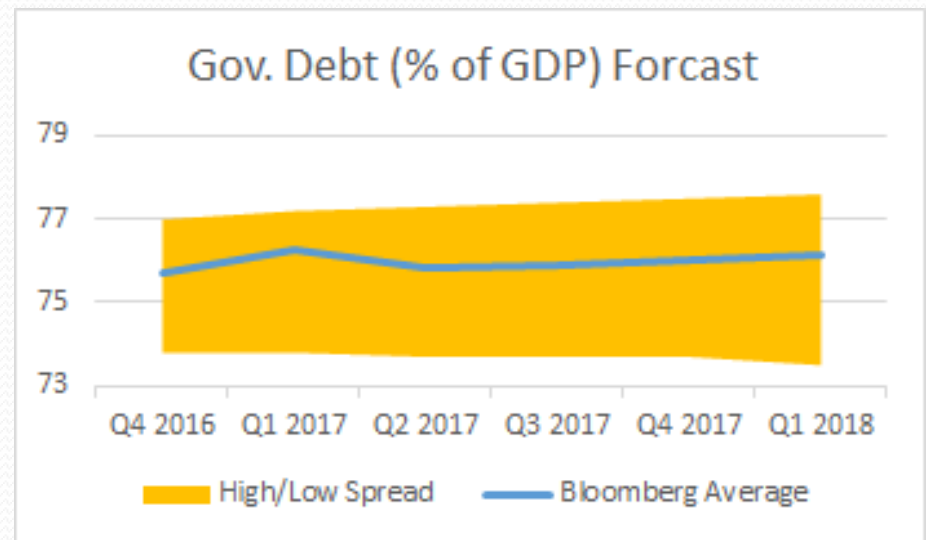
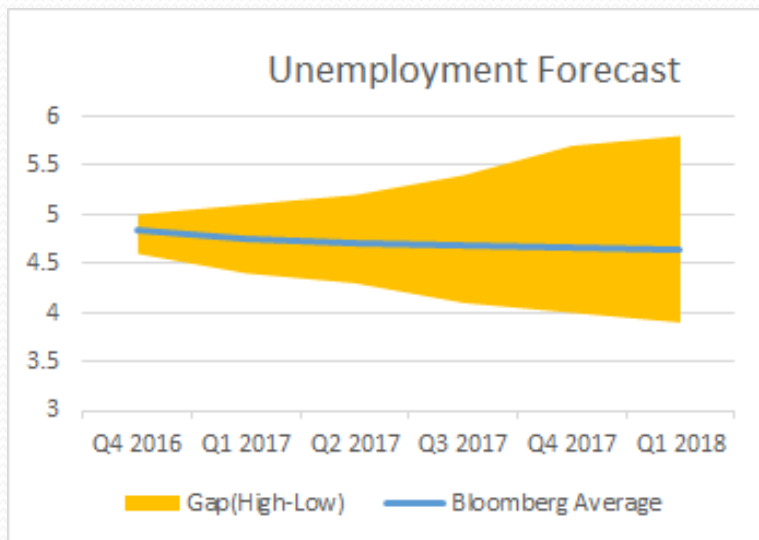
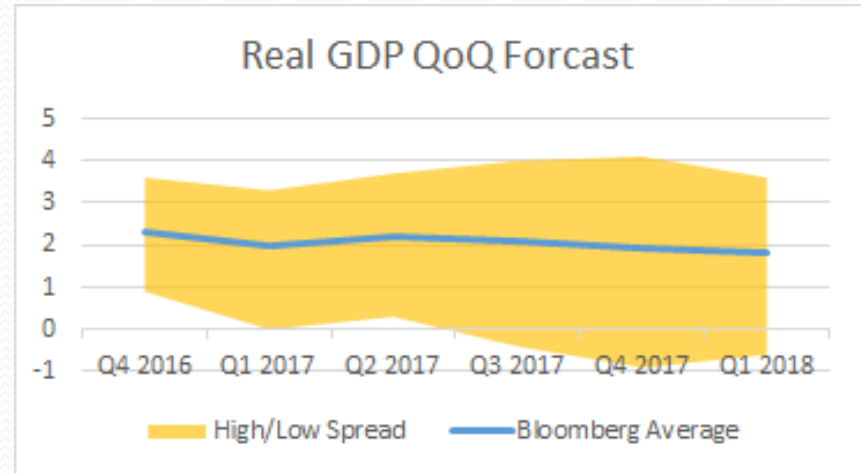
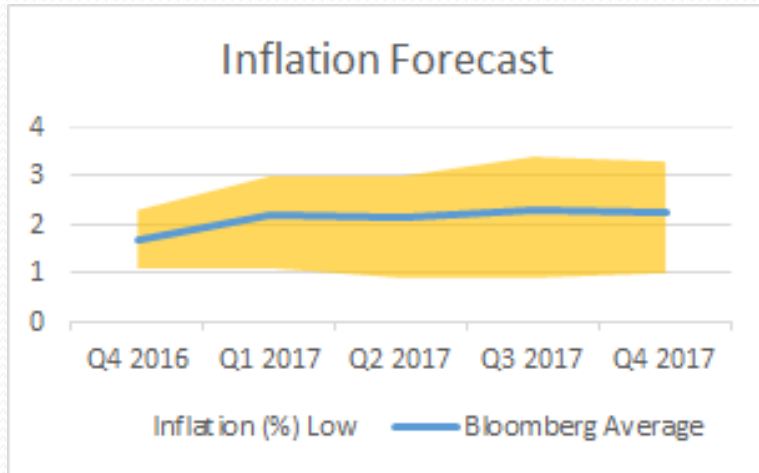


# The Fed in 2016

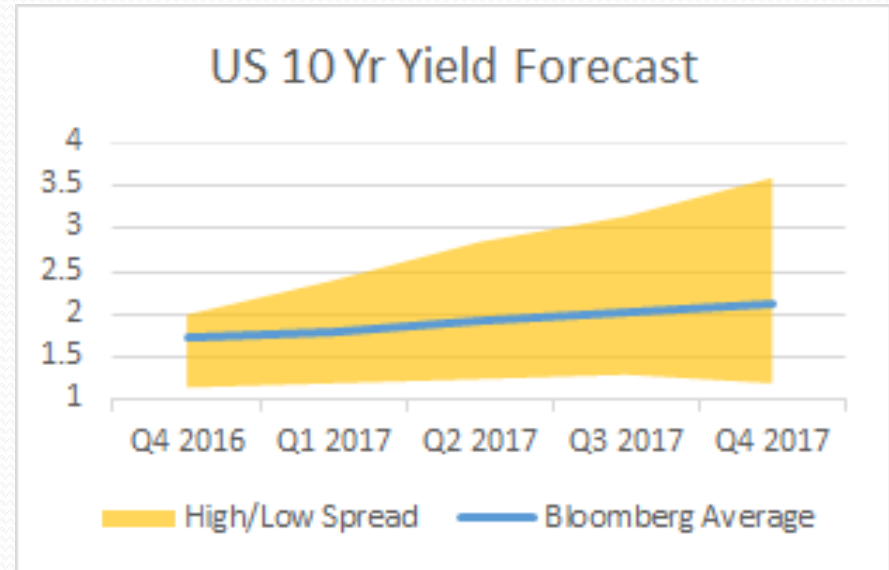
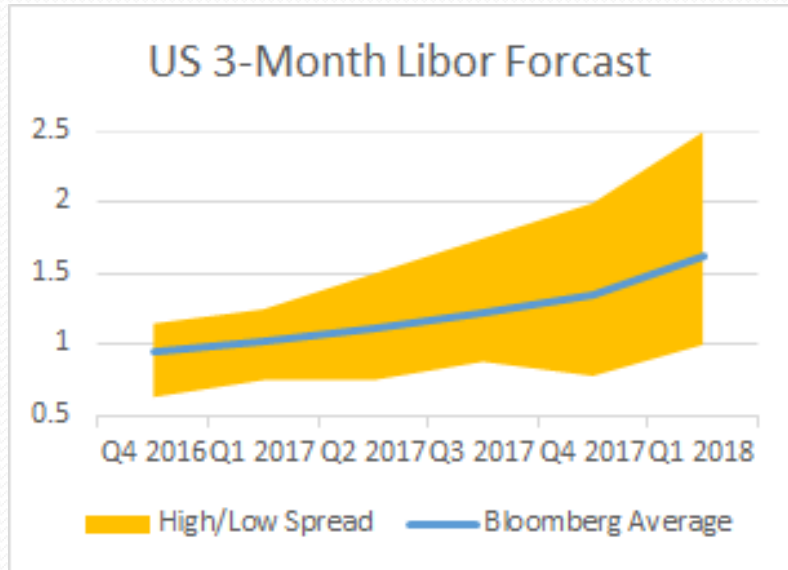
- October 26, 2016 – Fed hike at 73%
- After election, - Fed hike at 98%



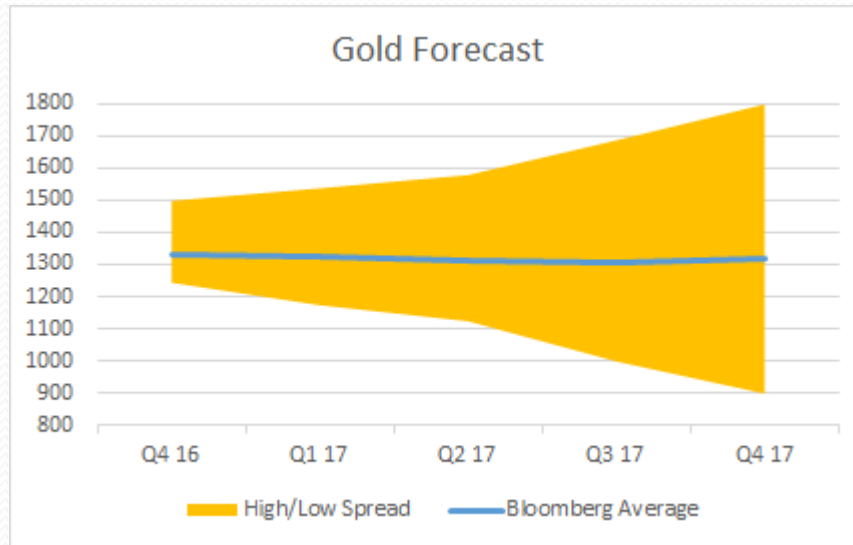
# The U.S. Economy in 2017 (What Experts Think)



# The U.S. Economy in 2017 (What Experts Think)



# The U.S. Economy in 2017 (What Experts Think)



## Summary

1. Most forecasts didn't change after Trump was elected.
2. Despite movements, I might load on some of those ideas earlier, short debt, and ...
3. Surprise of next 3 years, lower taxes and lower regulation might boost economy.



# Open Discussion

1. Referendum in Italy on December 4, 2016? Effects on Euro? The Fed?

Thank you

- Dr. Ludwig Chincarini Ph.D., CFA
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- United States Commodity Funds

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