HBK Wealth Management
Haire · Bohmer · Kilcoyne

WEEKLY ECONOMIC COMMENTARY

This Week's Economic Review and Outlook

November 2015

Our roads to success may have twists and turns and ups and downs; together we can navigate a course and enjoy the scenery along the way.

David Haire
HBK Wealth Management
President
9360 Montgomery Rd.
Cincinnati, OH 45242
513-942-9700
Fax: 513-942-9701
d.haire@hbkwealthmanagement.com
www.hbkwealthmanagement.com

In This Issue

Weekly Economic Commentary | Week of November 9, 2016

KEY TAKEAWAYS

- Q3 GDP results are lagging so far, relative to even lowered expectations; 55% of global GDP still has yet to report results.
- More disappointing results from the Eurozone and Japan could lead to additional QE; however, that may be welcome news for market participants who remain concerned about global growth for 2015 and beyond.

GLOBAL GDP TRACKER: FALL 2015 EDITION

Despite lowered expectations, some high-profile "misses" have occurred on global gross domestic product (GDP) readings for Q3 2015, causing concern for some market participants. The United States (23% of global GDP), China (13%), the United Kingdom (4%), South Korea (2%), Indonesia (1%), and Singapore (less than 1%) have reported Q3 gross domestic product (GDP). Together, those countries account for nearly 45% of global GDP. Third quarter 2015 GDP in three of the six nations beat or matched consensus expectations (China, South Korea, and Singapore), and three of the six countries reported results that either were in-line with or accelerated versus the prior period (South Korea, Indonesia, and Singapore). As a reminder, two-thirds of Q2 GDP reports beat or met expectations, while a similar percentage accelerated from Q1 2015 results; thus, the Q3 GDP results to date are lagging, relative to even lowered expectations. Still, with 55% of global GDP yet to report Q3 2015 results, the reporting season still has not reached the halfway point.

This week (November 8-15, 2015), another six countries are scheduled to report Q3 GDP, including the Eurozone (24% of global GDP), Japan (6%), Russia (2%), Poland (1%), Thailand (less than 1%), and Malaysia (less than 1%). Together, these nations--a nice mix of both developed (Eurozone and Japan) and emerging markets (Russia, Thailand, Poland, and Malaysia)--account for 34% of global GDP. Therefore, by the end of the week, countries representing nearly 80% of global GDP will have reported Q3 data [Figure 1]. Over the second half of November and the first half of December 2015, another 15-20% of global GDP will report on Q3, including (ranked in order of size of economy) Brazil, India, Canada, Australia, Mexico, and Turkey, along with Switzerland, Sweden, Argentina, Norway, South Africa, Denmark, and the Philippines, again providing further insight into both developed and emerging market economies in the third quarter.

EUROPE: SOME MOMENTUM AFTER A HALF-DECADE

According to the consensus of economists, the Eurozone's GDP is expected to accelerate to 1.7% year over year in Q3 2015 from a 1.5% reading in Q2. While tepid compared with growth in China (6-7%) and even the U.S. (2.5-3%) during the past two quarters, the expected 1.7% gain in GDP in Q3 represents a major acceleration from the 0.5% growth rate posted, on average, in the Eurozone in 2011 through the end of 2014, weighed down by a broken financial transmission mechanism (a lack of ability and willingness of European banks and financial institutions to make loans to businesses and households in Europe) and concerns over the fate of Greece. Currently, the European Central Bank (ECB) is actively engaged in quantitative easing (QE) and, in late October 2015, hinted that it will do more than it has already promised to do (which is to keep doing QE until at least September 2016), perhaps as soon as the next ECB policy meeting in early December 2015. The QE undertaken so far has helped to unstick the Eurozone's financial transmission mechanism; and the region's banking sector, though still struggling, is now finally beginning to lend again. Although problems in the Eurozone persist-including high labor costs, low productivity, and inflexible labor markets-the Eurozone appears to finally have some economic momentum after nearly a half-decade of sluggish growth.

1 BY THE END OF THIS WEEK, COUNTRIES REPRESENTING NEARLY 80% OF GLOBAL GDP WILL REPORT RESULTS

- Reported Q3 GDP
- Reporting Q3 GDP This Week (11/8–11/15)

Country	Percent of Global GDP
Eurozone	24%
United States	23%
China	13%
Japan	6%
United Kingdom	4%
South Korea	2%
Russia	2%
Indonesia	1%
Poland	1%
Singapore	<1%
Thailand	<1%
Malaysia	<1%

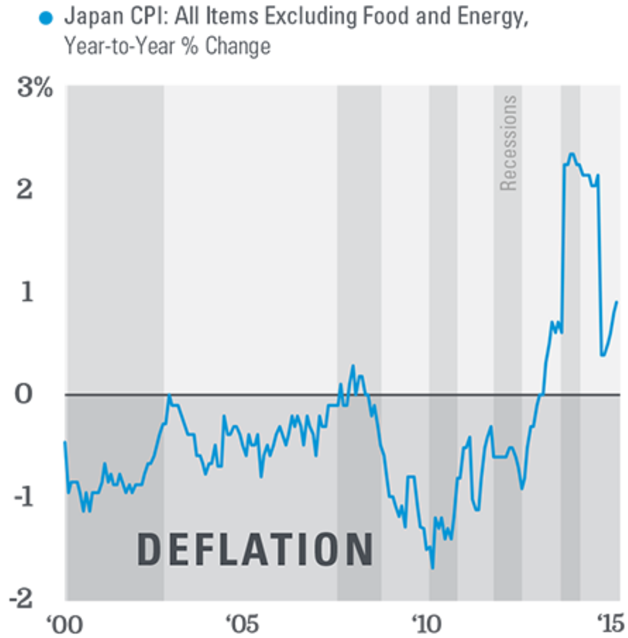
Source: LPL Research, Bloomberg 11/09/15

JAPAN: THREE ARROWS IN ACTION

Consensus forecasts call for a 0.3% decline in GDP in Japan between Q2 and Q3 2015, after the disappointing 1.2% drop in Q2. The expected lack of a rebound in activity in Q3 is also disappointing, especially considering that the factors that hurt Q2 growth, such as bad weather, were considered temporary. Although consumer spending (60% of GDP in Japan) is expected to bounce back in Q3 after poor weather hurt in Q2, business capital spending (15% of GDP) is expected to remain tepid; trade is also likely to be a drag on growth, given Japan's large exposure to China's manufacturing economy.

China is Japan's biggest customer, with 19% of its exports destined for China. While the Bank of Japan's (BOJ) massive QE program has helped to lift core inflation in Japan--which now stands at +0.9% year over year [Figure 2]--wage growth in Japan remains weak, and if overall economic growth continues to falter, the BOJ stands ready to do more. In addition, the Japanese government under Prime Minister Abe remains committed to the "Three Arrows" program of using monetary policy (i.e., QE), fiscal policy, and regulatory/legislative reform to boost economic growth and inflation.

2 QE HAS HELPED LIFT CORE INFLATION IN JAPAN, AND THE BOJ STANDS READY TO DO MORE



Source: LPL Research, MIC, Haver Analytics 11/09/15

CONCLUSION

Despite lowered expectations, there have already been some high-profile "misses" on global readings GDP for Q3 2015. This week provides another chance for Q3 GDP to outpace lowered expectations. Another possible round of disappointments this week in growth in two of the four largest economies in the world--the Eurozone and Japan--may lead to more QE from both the ECB and BOJ in the weeks ahead. However, more on the fiscal policy front from both Japan and the Eurozone would also be welcome news by market participants who remain concerned about global growth prospects in late 2015 and beyond.

Click here for "Global GDP At A Glance"

IMPORTANT DISCLOSURES

The opinions voiced in this material are for general information only and are not intended to provide or be construed as providing specific investment advice or recommendations for any individual security. Any economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal and potential illiquidity of the investment in a falling market.

Investing in foreign and emerging markets securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical risk, and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

DEFINITIONS

Quantitative easing (QE) refers to the Federal Reserve's (Fed) current and/or past programs whereby the Fed purchases a set amount of Treasury and/or mortgage-backed securities each month from banks. This inserts more money in the economy (known as easing), which is intended to encourage economic growth.

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

Core inflation is a measure of inflation that excludes certain items that face volatile price movements. Core inflation eliminates products that can have temporary price shocks because these shocks can diverge from the overall trend of inflation and give a false measure of inflation.

Weekly Market Commentary | Week of November 9, 2015

KEY TAKEAWAYS

- European earnings have disappointed relative to expectations and may suggest tempering near-term expectations for European stocks.
- While we are encouraged by Japan's economic progress, its earnings season has also fallen short of expectations.
- We recommend suitable investors focus equity allocations in the U.S., while maintaining modest developed international equity exposure.

GLOBAL EARNINGS UPDATE: EUROPE AND JAPAN COMING UP SHORT

Earnings overseas have generally not kept up with the U.S. We spend a lot of time dissecting earnings season in the U.S. because we believe earnings are the single biggest driver of stock prices over the long run. But earnings are not just important for U.S. stocks, they are also important for stocks overseas. This week we provide an earnings update in Europe and Japan, where results thus far have mostly fallen short of those in the U.S. While we continue to focus our equity allocations in the U.S., we still recommend modest developed international equity exposure for suitable investors, despite third quarter 2015 earnings shortfalls overseas. Prospects for international earnings to improve over the rest of 2015 and into 2016, and for additional monetary stimulus, are supportive.

The Source:
Earnings figures may vary depending on the source (Thomson, FactSet, Bloomberg, etc.). Data providers have different methodologies for calculating earnings, and different interpretations of what constitutes operating earnings as compared with reported (GAAP) earnings. In general, we favor the Thomson data series' long history in the U.S., but view FactSet as a reliable source of international earnings data.

U.S. EARNINGS SEASON TRACKING ACCORDING TO PLAN

We wrote about third quarter 2015 earnings season in the U.S. in our recent *Weekly Market Commentary,* "Corporate Beige Book," where we compared the number of positive words relative to the number of negative words in earnings conference call transcripts to assess the mood of management teams discussing results. Despite the challenging environment, particularly for global companies impacted by the strong U.S. dollar and companies tied to commodities, moods were generally positive. That exercise also highlighted the increased attention on China.

Earnings season in the U.S. is about 90% complete, ahead of Europe (51%) and Japan (73%), so we have a near final picture of where the numbers will end up. Results relative to expectations have been very good, with a 5% upside surprise thus far for S&P 500 earnings; and excluding the energy sector, earnings are on track to grow at a solid 6% pace. Excluding the drag from currency due to the strong U.S. dollar, earnings would be on track for a near 9% year-over-year increase, a very respectable figure for this stage of the economic cycle. U.S. earnings are poised to accelerate during the fourth quarter of 2015 and potentially return to mid- to high-single-digit growth rates within the next several quarters.

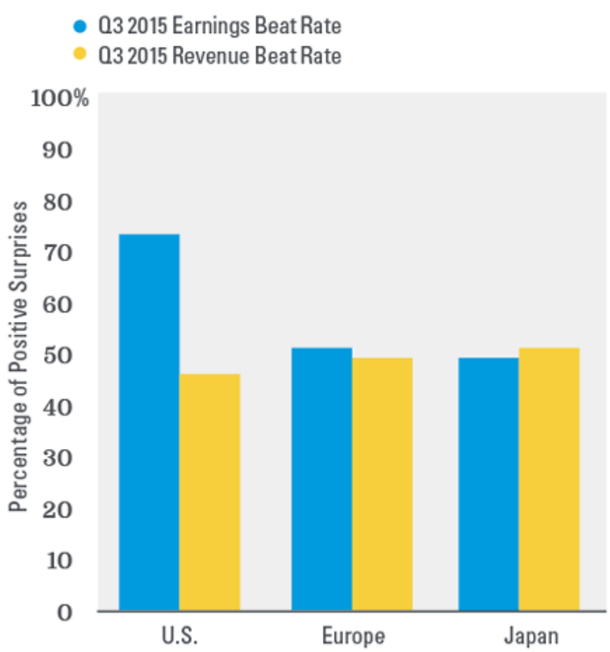
EUROPE DISAPPOINTS

In Europe, where the third quarter 2015 reporting season is only about halfway complete, results thus far have been disappointing on a variety of metrics. First, based on MSCI indexes, Europe has suffered the biggest year-over-year decline in earnings and revenue compared with the U.S. and Japan [Figure 1]. The story is no different if the sharp declines in energy sector profits are excluded. Second, the earnings beat rate (percent of companies beating earnings estimates) at 50% is significantly lower than the 70%-plus rate in the U.S. (and in-line with Japan's rate) [Figure 2]. And third, the earnings surprise, at a 5% shortfall, is far worse than the 5% upside surprise to earnings in the U.S. thus far and worse than the 2% shortfall in Japan [Figure 3]. The only metric in which Europe compares favorably to the U.S. and Japan is the revenue surprise (+2%), which is better than the U.S. result and Japan's 1% shortfall.

1 EUROPE SUFFERING LARGEST EARNINGS AND REVENUE DECLINES

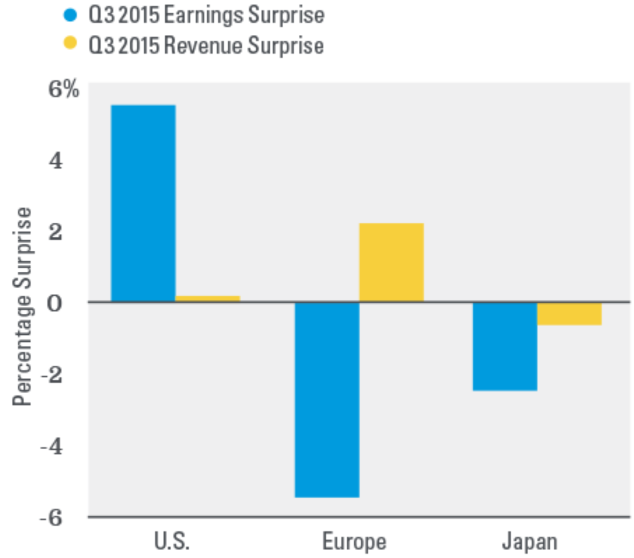
Source: LPL Research, FactSet 11/06/15

2 EUROPEAN AND JAPANESE COMPANIES MISSING EARNINGS TARGETS MORE THAN U.S. COUNTERPARTS



Source: LPL Research, Thomson Reuters, FactSet 11/06/15

3 EUROPEAN EARNINGS EXPERIENCING LARGE SHORTFALL VS. EXPECTATIONS



Source: LPL Research, FactSet 11/06/15

These results are discouraging for several reasons. For one, Europe has a currency advantage relative to the U.S. The drag from a strong U.S. dollar that U.S.-based multinationals are experiencing benefits European multinationals selling into the U.S. Second, European economic data have been consistent with steady growth in recent months, providing a backdrop for revenue and earnings gains. Third, the earnings weakness has left European valuations less attractive, weakening a key support for European stocks. Based on FactSet consensus estimates, since June 30, 2015, expected European earnings growth for 2016 has been cut in half to below 8%, a larger reduction than the U.S. (14% to 9%) and Japan (13% to 11%) during the same time frame. Lower European earnings estimates have lifted the forward price-to-earnings ratios (PE), leaving Europe at an 8% discount to the U.S., about in-line with its long-term average.

After warming up to European stocks during the early part of 2015, disappointing earnings results and mixed recent performance for these markets may suggest tempering near-term enthusiasm. Still, in general we recommend modest allocations to the region for suitable investors, with a preference for currency-hedged exposure when possible, due to the risk of further U.S. dollar gains as the Federal Reserve (Fed) likely begins to hike rates in December. We continue to see potential additional stimulus by the European Central Bank (ECB) as a positive catalyst, as discussed in this week's *Weekly Economic Commentary,* and expect European earnings growth to potentially improve in the coming quarters as benefits of low oil prices and cheaper currencies continue.

JAPAN ALSO TAKES A STEP BACK

Japan's third quarter 2015 results also took a step back from prior quarters and have mostly disappointed relative to expectations as shown in Figures 2 and 3. The good news for Japan right now is its market's limited energy exposure at less than 1% of the MSCI Japan Index [Figure 4], because Japan is a big fuel importer and not a producer. The absence of an energy drag has enabled Japanese companies to produce flat earnings year over year--very respectable relative to the U.S. and Europe--and actually grow revenue at about a 2% clip. Still, the beat rates have been disappointing and overall results have fallen short of expectations, leading to downward revisions in Japan, though smaller than those in the U.S. and Europe.

Click here for Figure 4 "Minimal Energy Exposure Is Helping Japan"

As in Europe, Japanese companies should benefit from a weaker currency (partly a result of stimulus enacted by the Bank of Japan), but those benefits have not been readily apparent. Low fuel prices should provide a nice boost to the Japanese economy. But economic growth in Japan has been intermittent, leading to speculation that more stimulus is forthcoming. And although the MSCI Japan Index has virtually no energy companies, its heavy weighting in industrials carries indirect commodity exposure, 19% of its exports go to China--more than double the U.S., and its materials sector weighting, at 5.5%, is larger than that of the S&P 500.

We have been encouraged by recent progress in Japan. Monetary policy stimulus--with more likely on the way--is supportive of the Japanese stock market. A weaker yen currency should help Japanese exporters, which are a bigger driver of the Japanese economy and a bigger component of its stock market than in the U.S.

And low fuel prices are especially helpful for corporate Japan. Although economic growth has been choppy and earnings have fallen short of expectations during the third quarter, we continue to see brightening prospects for Japanese earnings and Japanese stocks over the rest of 2015 and into 2016.

CONCLUSION

Third quarter earnings season has generally met expectations in the U.S. but fallen short in Europe and Japan. After warming up to European stocks during the early part of 2015, disappointing earnings results and mixed recent performance for these markets may suggest tempering near-term enthusiasm. In Japan, although economic growth has been choppy and earnings have fallen short of expectations during the third quarter, we continue to see brightening prospects for Japanese earnings and stocks. We recommend suitable investors focus equity allocations in the U.S. while maintaining modest developed international equity allocations where appropriate.

IMPORTANT DISCLOSURES

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All investing involves risk including loss of principal.

Investing in foreign and emerging markets securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical risk, and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

Because of its narrow focus, specialty sector investing, such as healthcare, financials, or energy, will be subject to greater volatility than investing more broadly across many sectors and companies.

Currency risk is a form of risk that arises from the change in price of one currency against another. Whenever investors or companies have assets or business operations across national borders, they face currency risk if their positions are not hedged.

Commodity-linked investments may be more volatile and less liquid than the underlying instruments or measures, and their value may be affected by the performance of the overall commodities baskets as well as weather, geopolitical events, and regulatory developments.

INDEX DESCRIPTIONS

The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The MSCI Japan Index is a free float-adjusted, market capitalization-weighted index that is designed to track the equity market performance of Japanese securities listed on Tokyo Stock Exchange, Osaka Stock Exchange, JASDAQ, and Nagoya Stock Exchange.

DEFINITIONS

Forward price-to-earnings is a measure of the price-to-earnings ratio (PE) using forecasted earnings for the PE calculation. While the earnings used are just an estimate and are not as reliable as current earnings data, there is still benefit in estimated PE analysis. The forecasted earnings used in the formula can either be for the next 12 months or for the next full-year fiscal period.

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Tracking #1-438430 (Exp. 11/16)

Who are these people who sacrifice time and careers to care for loved ones? Here's a profile.

For Love or Money: Portrait of a Voluntary Long-Term Caregiver

It is a story that doesn't grab many headlines, but its stealthy impact is growing at an alarming rate. Today, some 65 million Americans -- 29% of the U.S. population -- provide at least 20 hours per week of unpaid care for a chronically ill, disabled, or aged family member or friend.[1] According to statistics compiled by the Caregiver Action Network, the value of the services family caregivers provide for free is estimated to be $375 billion a year. That is almost twice as much as is actually spent on homecare and nursing home services combined ($158 billion).

While voluntary caregiving is an activity that impacts both men and women -- it is estimated that 66% of adult women and 34% of adult men provide unpaid care for a friend or family member -- a profile of the average caregiver suggests she is a 49-year-old woman caring for her widowed mother.[1]

The Financial Fallout

Family caregiving can interfere with individuals' careers and put them at financial risk. According to AARP, family caregivers who are at least 50 years old and leave the workforce to care for a parent forgo, on average, $304,000 in lost salary and benefits over their lifetime. These estimates range from $283,716 for men to $324,044 for women.[2] Evidence suggests, however, that due to the higher amount of lost income and their tendency to assume the role of caregiver in midlife, women caregivers face a substantially higher risk of living in poverty in their elder years than do men. The cost of caregiving effects employers as well. Data shows that U.S. businesses lose more than $33 billion annually in productivity losses and worker absences. Broken down on a per-worker basis, the annual cost to employers per full-time employee amounts to $2,110.[3]

Completing the Portrait

The following statistics compiled by *PBS NewsHour* help to round out the portrait of today's long-term caregiver in America.

Gender:

- Female -- 66%
- Male -- 34%

Work accommodations: Percent who have:

- Arrived late, left early, or taken time off -- 64%
- Taken a leave of absence -- 17%
- Quit or taken early retirement -- 10%
- Turned down a promotion -- 5%
- Any of the above -- 68%

Relationship to individual cared for:

- Parent/in-law -- 72%
- Grandparent -- 7%
- Spouse -- 5%
- Sibling -- 3%
- Aunt/uncle -- 2%
- Other family -- 5%
- Non-family -- 6%

Percent who've used all or most of their own savings to provide care -- 47%

Among ALL U.S. workers, percent who:

- Expect to provide elder care in next five years -- 49%

- Have provided care for an aging relative or friend in past five years -- 42%

If you are currently a caregiver or expect to be one in the not-too-distant future and would like to learn more, the following resources offer good starting points:

- The Family Caregiver Alliance, National Center on Caregiving
- National Alliance for Caregiving
- Caregiver Action Network

[1]*PBS News Hour, "Value of voluntary long term care for family reaches staggering amounts," April 8, 2014.*

[2]AARP: Understanding the Impact of Family Caregiving on Work, Fact Sheet 271, October, 2012 and MetLife Mature Market Institute, "The MetLife Study of Caregiving: Costs to Work Caregivers: Double Jeopardy for Baby Boomers Caring For Their Parents," 2011.

[3]AARP: Understanding the Impact of Family Caregiving on Work, Fact Sheet 271, October, 2012 and MetLife Mature Market Institute and National Alliance for Caregiving (NAC), MetLife Caregiving Study: "Productivity Losses to U.S. Business," 2006.

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Common Estate Planning Mistakes -- and How to Avoid Them

Whether drafting a basic will or crafting an elaborate strategy involving trusts and tax planning, an estate plan can help reduce estate taxes, save on estate administrative costs, and specify how your assets are to be distributed.

Estate planning can be a minefield of potential missteps, some of which could have far-reaching consequences. Many of the poor choices individuals make when planning for their own future or passing assets to their families are caused by "one-size-fits-all" planning strategies or well-intended advice from family or friends. Following are some common and potentially costly mistakes along with suggestions for avoiding them.

Failing to plan. Whether drafting a basic will or crafting an elaborate strategy involving trusts and tax planning, an estate plan can help reduce estate taxes, save on estate administrative costs and specify how your assets are to be distributed. Today, the majority of Americans have no will. If you die without one, your estate will be divided according to the intestacy laws of your state -- not according to your wishes. This could create problems if your intended beneficiary is a minor child, a child with special needs, a favorite charity, or a combination of the above. In these cases, you need a will that details each contingency and a trust or multiple trusts to accomplish your goals.

Not maximizing your marital estate exemptions. Perhaps one of the most important pieces of tax legislation passed recently is referred to as the "portability" provision. This means that if one spouse dies without using up his or her federal estate tax exemption -- $5.43 million in 2015 -- the unused portion may be transferred to the surviving spouse without incurring any federal estate tax.

How might the portability provision work in a real life situation? Consider the following scenario involving the hypothetical $8 million estate of Jim and Helen:

If Jim dies in 2015, the executor of his estate can elect to use the unlimited spousal exemption and can also transfer Jim's unused $5.43 million federal estate tax exemption to Helen. If Helen dies in 2015 with $8 million in assets, her estate will have a total of $10.86 million in federal estate-tax exemptions: the $5.43 million exclusion transferred from Jim and her own $5.43 million exclusion. As a result, none of Jim and Helen's $8 million estate would be subject to federal estate tax.

As welcome as the portability provision may be, it still does not account for future appreciation of assets from the first spouse's estate. Nor does portability offer protection from creditors and others aiming to lay claim on an estate's assets. Traditional strategies like credit shelter trusts and bypass trusts do provide these benefits and therefore are still essential planning instruments for married couples.

Naming a family member as executor. Your executor is the person who will be responsible for administering your estate after death. The responsibilities of an executor are serious, and you will want someone who will take them seriously. There are many important reasons to choose a paid executor -- a bank or trust company, for instance -- along with (or instead of) a spouse or family member. A professional executor is familiar with the probate process and may actually save the family money, keeping expenses under control. This will undoubtedly be an emotional time for your loved ones, and a family member may find it difficult to focus on the details involved with settling an estate. In addition, when you name a family member, especially a beneficiary as executor, you introduce the potential for conflict of interest. The larger the estate, the more likely those conflicts become.

Relying on advice from family or friends. Would you go to a friend or relative for surgery or to fix your car if he or she was not a skilled surgeon or auto mechanic? Why would you take their advice about estate planning issues if they are not professional planners? When seeking a professional, look for a specialist -- someone who knows trusts, estate tax law, and probate issues. A specialist will have more experience and skill in his/her chosen area -- and that will translate into higher quality services provided in the most cost effective manner.

No set of rules or advice can apply in all cases, but a sure way to avoid these and other problems is to rely on a trusted team of tax and legal professionals led by your financial advisor.

This communication is not intended to be tax and/or legal advice and should not be treated as such. Each individual's situation is different. You should contact your tax/legal professional to discuss your personal situation.

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