Courier Capital, LLC
Registered Investment Adviser
An affiliate of Five Star Bank

Market Review & Update

FALL 2016

INVESTMENT COUNSEL

Bruce Kaz

Randy Ordines

William Gurney

Thomas Hanlon

Jason Stronz

Steve Gattuso

Mike Brace

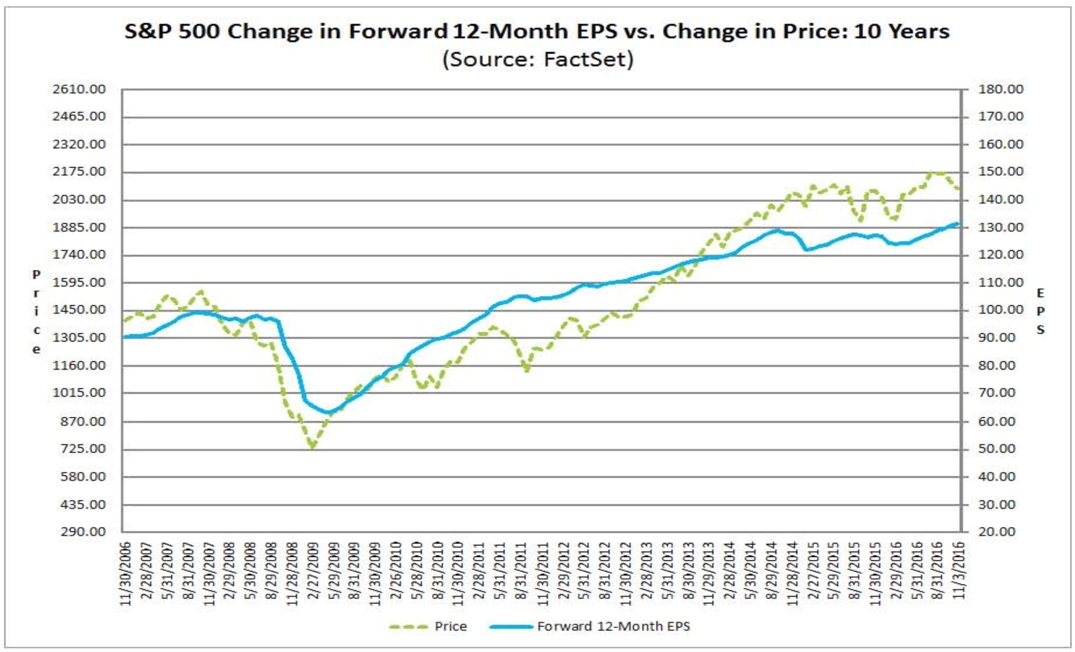
1114 Delaware Avenue
Buffalo, NY 14209
Phone (716) 883-9595
Toll Free: 1-800-783-1086

214 West Fifth Street
Jamestown, NY 14701
Phone: (716) 484-2402
Toll Free: 1-877-484-2402

Well, it's Fall, earnings season and the elections are now behind us. As noted economist Mohammed El-Erian often said, "Welcome to the new normal"…

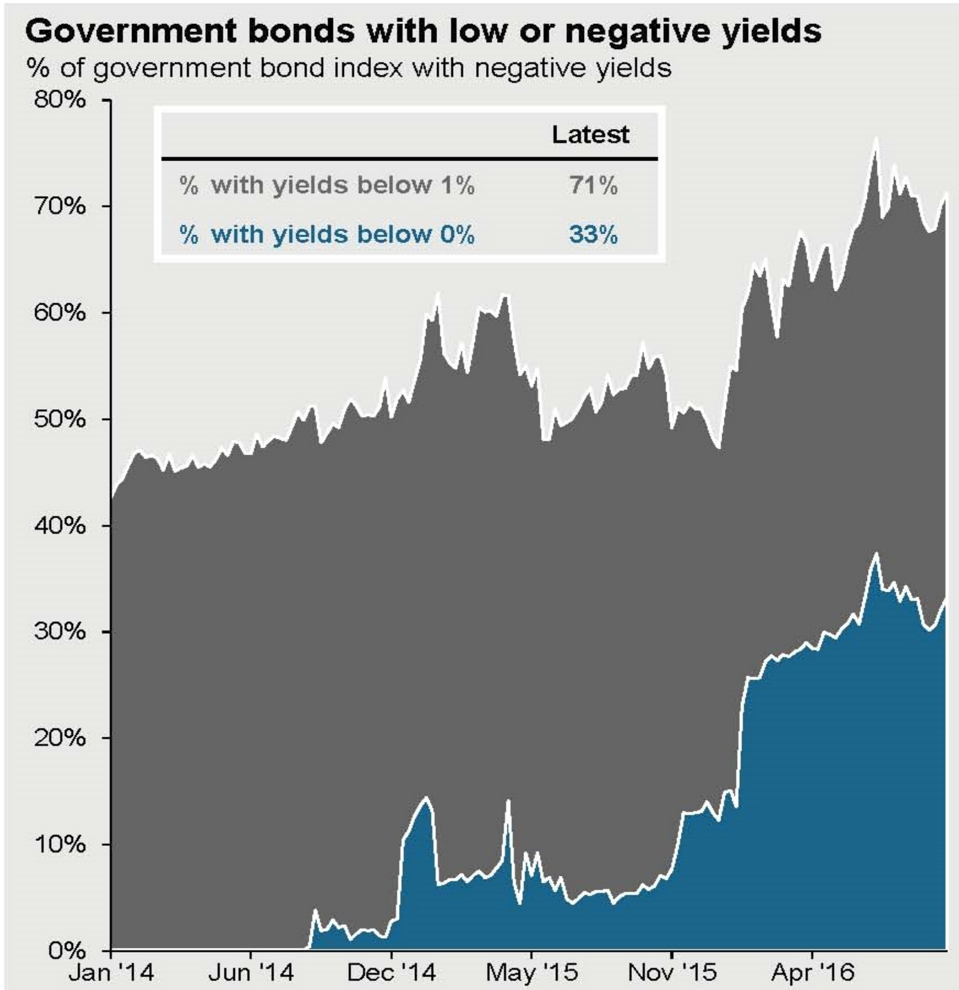
So, what does all this mean and what do recent events tell us?

Let's start with earnings season. Not bad, not bad at all. For Q3 '16 the growth rate for S&P500 earnings was 2.5%. While that doesn't sound significant, recall that since Q1 '15 we have experienced an earnings trough, so a return to growth is a very good thing. The forward forecast is for $131.43 which puts the forward P/E for the S&P at under 16x. That's pretty good for stock valuation levels. Why? Hyperbolics aside, markets invariably follow fundamentals, so higher earnings should equate to a rising market.



Source: Factset

Given the aforementioned, it should be of little surprise to see that economic metrics also improved during this period. Job creation, while not hot, was just good enough to take another step forward. Ignoring the typical unemployment rate the government quotes, we prefer to look at the U6 unemployment rate the Fed stares at. It includes those individuals who gave up on looking for a job, those who were pushed to part time status (mostly due to the Affordable Care Act) and those seeking higher wages. That number had been stuck above 10%, and for the first time in recent years dipped below that level to 9.6%. Good if it is a trend and also good in that there are more people resources available to spur future growth. During that earnings trough wouldn't it also make sense that we saw no growth in productivity levels? Well, in Q3 we finally saw productivity move upward, also a good sign. GDP estimates of 2.9% were well above the 1%ish numbers we had seen so far in '16, but we should not assume that it's the new trend as that number did include some significant inventory build, which really tends to borrow growth from the next quarter or two. Given all this, there was an increased potential for the Fed to raise rates in December. However, current events may throw a bit of a question mark on that. What do we see going forward? As you may recall, we have often stated, and the Economist, has frequently echoed that tax and regulatory reform were essential ingredients to any further gains in GDP growth, which manifests in earnings growth. With one party now influencing near term agendas we will most certainly see the changes in corporate tax structure and repatriation tax that will incentivize more domestic activity and increased corporate earnings, higher GDP, an infrastructure build, et al.



Source: Bloomberg, J.P Morgan Asset Management

Globally, we have seen the uncertainty our elections have caused. Concerns over trade, currencies and other factors created uncertainties that we know markets dislike. Overseas market sell-offs were anticipated and were delivered on cue. We'll have to see what really occurs in terms of dialogue and policy prior to predicting what the future trend is. In the near term, currency levels will be important. But, it is important to take a lesson from history. Many people have gone to Washington with some huge ideas. Many huge ideas die in Washington. Our founders saw to that with great foresight. The last 8 years will serve as the most recent example. The legislature disagrees with the directions of the executive branch and the resulting gridlock halts the unilateral dreams. The three branches of government are there to moderate exacerbations, unfailingly. Aside from that, we have seen recent sprouts of good in the Euro Zone. Growth has increased a bit, creating a slightly better job and production environment, even in the Brexit zone… And there have been some murmurs beginning that Mario Draghi may soon begin to wind down the QE program that drove ZIRP and NIRP to historic levels that witnessed about 40% of global sovereign debt issues to carry negative yields. We have heard that in Denmark, certain negative rate mortgages can have the lender paying the borrower a monthly stipend. Certainly a policy not to last much longer. It has an Alice in Wonderland air to it.

While it is so very tempting, it is invariably counter-intuitive to blend politics and economics too vigorously. If you want some good examples pull up a long term chart of the equity markets, since 1900 works best, then take a pencil, since they are also of historical significance, and write the names of the politicians during the years they were hanging around. You'll find some significant disparity between feelings and reality. If this were Pee Wee's Playhouse the word of the day would be SYNCRETISM.

We'll talk to you soon…