

HARBOR VIEWS

HARBOR ADVISORY QUARTERLY NEWSLETTER

Spring 2016



A LOOK INSIDE HARBOR VIEWS

- *Thoughts on the Economy* – Employment trends continue to be strong...
- *Our View of the Financial Markets* – We continue to expect the European and emerging equity markets to provide higher total returns than U.S. shares.

LATEST NEWS FROM HARBOR ADVISORY

- You can visit us at: www.harboradvisory.com. Take a look and let us know your feedback.
- Jack De Gan continues to make news with his regular guest appearances on CNBC's top rated financial shows "Squawk Box", "The Call", "Closing Bell" and on Bloomberg TV, Fox Business News and National Public Radio.

THOUGHTS ON THE ECONOMY

The U.S. economy expanded in the first quarter of 2016 at an annualized rate of .5%. Consumer spending, the largest component of GDP, continues to point to normalized growth closer to 2.0% which remains our estimate of growth for the full year 2016.

Two of the headwinds to the economy in 2015 are beginning to reverse trend in early 2016. The strength of the U.S. dollar reduced export growth in 2015 and the dollar has traded lower by a few percent in the first four months of 2016. The sharp drop in commodities prices in 2015, especially oil, has also reversed. West Texas Intermediate crude (WTI) bottomed at \$26 in December and again in February. At the end of April it is trading in the low to mid-\$40 range.

Employment trends continue to be strong with new jobs averaging 200,000 per month in 2016. Average hourly earnings are again increasing at a rate of 2-2.5% year over year.

Business investment remains weak indicating that businesses do not see demand increasing fast enough to warrant investment in new plant and equipment. Auto sales and housing remain standouts on the stronger side with auto unit sales running at 17.5-18.0 million and housing starts running at 1.1-1.2 million units annualized.

OUR VIEW OF THE FINANCIAL MARKETS

The sharp 10% correction in January and February has reversed as we had expected as growth fears receded. Broad U.S. and world equity indices finished the month of April with year-to-date gains of 1-2%. We expect the remainder of the year to be volatile but to provide investment returns for the full year 2016 roughly equal to the earnings growth rate plus the dividend rate, perhaps 6-8%.



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Nod to the ubiquitous disclaimer:
While we're not infrequently, and
always quite accurately, accused of
being of strong opinion – we want to
let the reader know we've been wrong
before, we will be again, but please
don't hold it against us. The forward
looking parts of the letter are the best
efforts of fallible humans working at
Harbor Advisory.

We continue to expect the European and emerging equity markets to provide higher total returns than U.S. shares. The weaker dollar and stronger commodity prices should help the emerging markets. European equities should benefit from stronger economic growth (2.2% annualized GDP growth in the first quarter of 2016) and energy prices that remain significantly lower than the previous 10 years even as prices strengthen somewhat this year.

Bond yields continued to confound the experts as the yield on the 10 year U.S. Treasury note, trading at 1.8%, is down from 2.15% at year-end 2015. Fixed income returns, therefore, have outpaced equity returns through the first four months of 2016. We continue to expect 1 or 2 more .25% increases in the federal funds rate by the Federal Reserve this year, a call which is now consensus. Our expectation remains that rates are well behaved in 2016 with the 10 year Treasury note seeing a high of 2-2.5% in 2016.

PATH

The Protect Americans from Tax Hikes (PATH) Act of 2015 extended a number of tax benefits that may interest some of you.

- IRAs – The \$100,000 qualified charitable deduction (QCD) from IRAs was extended through 2016. You can use your IRA to gift up to \$100,000, or \$200,000 for a married couple filing jointly, to a qualified charity. The deduction is not taxable and can fulfil some or all of your RMD. Gifts cannot be made to a donor advised fund, a private foundation, or a supporting organization. Check with your tax advisor.
- Energy – The 30% Federal tax credit for solar, wind or geothermal energy systems has been extended as has the 10% credit for energy saving updates such as insulation or new windows. Check with your tax advisor.
- Expensing – The Section 179 rule for expensing business investment up to \$500,000 has been extended through 2016 as has accelerated depreciation. Check with your tax advisor.

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