



## Markets in a Minute

Biweekly insights on the latest global investment news

### Equities: The four “Ds”



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### Fixed Income: Considerable uncertainty in 2017



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### Preparing for Trump

As we approach Inauguration Day, equity markets have started the New Year much like they finished 2016. We summarize what we believe to be the main equity market risks and opportunities in 2017 with the following four “Ds”:

#### Donald

Expectations surrounding Trump’s election platform have helped to propel U.S. equities to record heights since Election Day. This platform included: (1) increased fiscal stimulus, (2) decreased regulation, (3) tax cuts, and (4) increased infrastructure spending.

#### Dovish

Minutes from the Fed’s December 2016 policy meeting revealed uncertainty regarding the outlook for more fiscal stimulus in 2017 and a potential buildup of labor market pressures. We expect U.S. growth, a healthy labor market, and positive wage and consumer spending trends to confirm the Fed’s current data-driven focus.

#### Dividends

The rotation from high-dividend stocks, low volatility equities, and bonds to growth-oriented sectors could continue in 2017. This trend began in July and accelerated after the December rate hike.

#### Dollar

The strengthening U.S. dollar could create challenges for multinational companies, emerging markets, and commodities.

### December Fed meeting minutes

“Considerable uncertainty” was the theme of the Fed’s December meeting minutes, with a focus on the unknown impact of Trump’s policies in 2017 and beyond. No one knows what Trump can do, wants to do, or will do, or how the markets will react. To say we’re in uncharted territory is an understatement!

### Fed rate outlook

The Fed has intimated that three rate hikes are possible for 2017, while the market is pricing in two. Yet as we know, the Fed is waiting for inflation *expectations* to translate into *actual* inflation. So far, there hasn’t been much of it.

### Treasury yields

It’s been crazy since the election. But Treasury yields have actually settled down a bit. From about 2.60% a month ago, 10-year Treasury yields are down to around 2.35%. Volatility has tapered off some, too. We wouldn’t say that things are “normalizing,” but early forecasts for a massive bond sell-off haven’t materialized.

### 20K on the Dow?

The Dow has captured everyone’s attention as it has come close to crossing the 20,000 threshold several times over the past few weeks. But the overconfidence this focus implies is worrisome. A significant downturn in stocks could throw a major speed bump into the Fed’s rate hike plans this year.

## About the authors

### Omar Aguilar, Ph.D.

Omar Aguilar is Chief Investment Officer (Equities and Multi-Asset Strategies) of Charles Schwab Investment Management, Inc. (CSIM), a subsidiary of The Charles Schwab Corporation. Aguilar joined CSIM in 2011 and is responsible for equity and asset allocation mutual funds, ETFs, and separately managed accounts. Aguilar has more than 20 years of broad investment management experience in the equity markets, including managing index, quantitative equity, asset allocation, and multi-manager strategies. Aguilar received a BS in actuarial sciences and a graduate degree in applied statistics from the Mexico Autonomous Institute of Technology. He was a Fulbright scholar at Duke University's Institute of Statistics and Decisions Sciences, where he earned his MS and Ph.D.

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