Financial Markets

Opportunities and Challenges
Current State of the Economy

Key Indicators:
• Unemployment
• Consumer Sentiment
• Stock Market
• Interest Rates
• Housing
Unemployment and Underemployment

Source: Wells Fargo Investment Institute
Consumer Confidence and Business Optimism reach post recession highs.

Source: Wells Fargo Investment Institute
Are Stock Valuations Justified?

S&P 500 Forward P/E

Data as of May-16

Source: Courtesy Wells Fargo Investment Institute. FactSet. The S&P 500 Index is a capitalization-weighted index calculated on a total return basis with dividends reinvested. The index includes 500 widely held U.S. market industrial, utility, transportation and financial companies. An index is unmanaged and not available for direct investment. Shaded area represents timeframe of a U.S. economic recession. Past performance is no guarantee of future results.
Interest Rates

10-Year Treasury Constant Maturity Rate

Source: Board of Governors of the Federal Reserve System (US)/FRED
S&P/Case-Shiller 20-City Composite Home Price Index

Source: S&P Dow Jones Indices LLC/FRED
Northern Nevada at a Glance

Reno MSA Unemployment Rate
Seasonally Adjusted

Reno MSA Employment Growth By Industry
Year-over-Year Percent Change, 3-MMA

Source: Wells Fargo Investment Institute
Source: Center for Regional Studies, COB, UNR
**Existing Single-Family Median Home Values**

**Sources:**
- Center for Regional Studies, COB, UNR

**Graph Details:**
- **Greater Reno-Sparks Median Price**
- **1% Quarterly Appreciation Rate**

**Key Points:**
- **Peak (4Q05):** $155,031 "Bubble"
- **$194,969**
- **$350,000**
- **$307,500**
- **$298,472**

**1990-2001 = 0.97% average appreciation rate per quarter (blue trendline)**

**Quarterly Change:**
- 1Q16: 1.0%
- 2Q16: 5.2%
- 3Q16: 2.3%
- 4Q16: -1.4%

**Annual Change:**
- 4Q15-4Q16: 7.0%
Policy Themes for 2017

- Deregulation
- Lower corporate tax rates
- Infrastructure/Defense Spending
- Higher interest rates
- Trade Wars
# Market Reaction following the Election

Return for different sectors between 11/7/16-3/17/17

<table>
<thead>
<tr>
<th>Sector</th>
<th>Return</th>
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</thead>
<tbody>
<tr>
<td>Financials (XLF)</td>
<td>22.4%</td>
</tr>
<tr>
<td>Industrials (XLI)</td>
<td>13.5%</td>
</tr>
<tr>
<td>Technology (XLK)</td>
<td>13.1%</td>
</tr>
<tr>
<td>Discretionary (XLY)</td>
<td>11.3%</td>
</tr>
<tr>
<td><strong>S&amp;P500 (SPY)</strong></td>
<td><strong>11.2%</strong></td>
</tr>
<tr>
<td>Basic Materials (XLB)</td>
<td>11.1%</td>
</tr>
<tr>
<td>Healthcare (XLV)</td>
<td>10.2%</td>
</tr>
<tr>
<td>Utilities (XLU)</td>
<td>5.0%</td>
</tr>
<tr>
<td>Staples (XLP)</td>
<td>4.8%</td>
</tr>
<tr>
<td>Real Estate (XLRE)</td>
<td>2.0%</td>
</tr>
<tr>
<td>Energy (XLE)</td>
<td>0.8%</td>
</tr>
</tbody>
</table>
Regulatory policy has increased business costs. Reducing them could pay big dividends for small manufacturers.

13% Increase in regulatory cost for all businesses (2008 – 2012)

3x The cost of regulation per employee (Small manufacturers vs. all businesses)

Lower corporate tax rates may lead to increased capital investments.
Opportunities

• Deregulation should make doing business easier and less costly
• Lower taxes should make capital available for investment
• Housing market should remain strong with low unemployment
• Infrastructure spending should benefit firms in the construction, raw materials sector
• Increase in defense spending should benefit defense contractors
• Rising wages should increase discretionary spending, benefitting firms in the services and hospitality business.
• Bank should benefit from higher interest rates
• Energy costs likely to remain low
Challenges

• Low unemployment may lead to a shortage of labor, especially skilled labor
• Rising wages
• Rising interest rates likely to increase cost of borrowing
• Trade War(s)
Questions?????