Meeting Minutes

Town of Upton

Board of Commissioners of Trust Funds

Date: March 23, 2013

Location: Town Hall 7:00

Attendees: Ken Glowacki, Steve McCaw, Mike Oliver,

Process: Meeting brought to order by Ken Glowacki at 7:02pm

Discussed year to date performance. We are even for the year.

Discussed attached files from Paul McDonough concerning market and overall economy.

Adjournment: Meeting was adjourned at 7:35pm

First Trust
Monday Morning OUTLOOK
630-517-7756 • www.ftportfolios.com February 16, 2016

No Sign of Recession in the Data

Brian S. Wesbury – *Chief Economist*
Robert Stein, CFA – Dep. Chief *Economist*
Strider Elass – *Economist*

So far this year, the S&P 500 is down around 9% and has been down as much as 10.5%, a garden variety correction. But some pessimistic pundits, analysts, and investors are treating the correction as a harbinger of the recession they've predicted multiple times before, ever since the economy started to recover in mid-2009.

The idea is that if we're falling into recession, then the decline in stocks isn't really a correction but the end of the bull market that began in March 2009 and the start of a new bear market, with at least another 10% decline to go.

The problem for them is that the data on the economy are simply not cooperating with the recession theory.

New claims for unemployment insurance fell to 269,000 last week and remain very low by historical standards. Usually, new claims for jobless benefits spike higher right before or in the early stages of a recession, but that hasn't happened.

Instead, jobs keep growing and workers are generating more and more purchasing power. Even if we exclude fringe benefits and irregular bonuses/commissions, workers are earning 4.7% more than they did a year ago. Meanwhile, consumers' debt service ratio – the share of their after-tax income they need to make monthly debt payments on mortgages and other consumer debt – are hovering near the lowest levels since the early 1980s.

Yes, it's theoretically possible that consumers have low debt service ratios overall because the highest earners are earning more and so those who aren't high income might be under growing financial stress

But the data don't show this. The share of household debt where borrowers are "current" (or not delinquent at all) increased for the sixth year in a row in 2015, and that includes student loans. After peaking in 2009 at 2 million, the number of consumers with new foreclosures fell to 400,000 in 2015, the lowest on record going back to 2001.

Cars and light trucks continue to fly off of dealer lots, reflecting growing earnings and consumer savings from lower gas prices. Yes, the median credit score on auto loans is down from 2009, but it's equal to where it was in 2003 and higher than every other year between 2000 and 2008.

Yes, energy companies continue to get hammered. But companies outside that sector, overall, have been doing fine, with earnings up slightly from a year ago.

In the past, recessions have usually been led by spikes upward in inflation that led the Federal Reserve to tighten monetary policy, not just become less loose. We think inflation will gradually move higher in the next couple of years. But, as of yet, there's simply no sign of a recession-causing spike in inflation. Those who argued that the Fed was causing hyperinflation have been flat out wrong.

Nor do we have some sort of overhang in home building caused by a combination of loose monetary policy or government subsidies for housing. Home builders started 1.1 million homes last year, including both single-family homes and apartment units. That's roughly double the bottom in 2009, but still well off the roughly 1.5 million homes we need to start each year just to keep up with population growth and "scrappage" (from voluntary knock-downs, fires, floods, hurricanes, tornadoes earthquakes,…etc.).

In other words, the kinds of numbers we need to see before a recession just aren't there. Yes, the current Plow Horse expansion is almost seven years old. But, as a recent Fed paper makes clear, modern economic expansions don't end just because they're old. As an expansion ages, the odds of a recession starting soon barely budge.

Of course, a future recession is inevitable. We're just not there yet and unlikely to get there any time in at least the next couple of years.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
2-16 / 7:30 am	Empire State Mfg Survey – Feb	-10.5	**-10.0**	-16.6	-19.4
2-17 / 7:30 am	Housing Starts – Jan	1.170 Mil	**1.180 Mil**		1.149 Mil
7:30 am	PPI – Jan	-0.2%	**-0.2%**		-0.2%
7:30 am	"Core" PPI – Jan	+0.2%	**0.0%**		+0.1%
8:15 am	Industrial Production – Jan	+0.3%	**+0.4%**		-0.4%
8:15 am	Capacity Utilization – Jan	76.7%	**76.7%**		76.5%
2-18 / 7:30 am	Initial Claims – Feb 13	275K	**276K**		269K
7:30 am	Philly Fed Survey – Feb	-3.0	**-2.8**		-3.5
2-19 / 7:30 am	CPI – Jan	-0.1%	**-0.1%**		-0.1%
7:30 am	"Core" CPI – Jan	+0.2%	**+0.2%**		+0.1%

Consensus forecasts come from Bloomberg. This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.

RBC WEALTH MANAGEMENT

GLOBAL INSIGHT WEEKLY

MARCH 18, 2016

A CLOSER LOOK

The Urgency of Later

Tom Garretson – Minneapolis

The Fed caught markets offside by tapping the brakes on its rate hike plans at the March meeting. But while it appears officials have lost their sense of urgency for now, chances are they may rediscover it later.

A Shifting Landscape

The Federal Reserve delivered a surprise, but not necessarily unexpected, cut to its projected path for the Fed Funds rate for 2016 and the coming years. Where Fed officials previously saw four hikes in 2016, they now see just two—and the market continues to expect even fewer.

For some investors, the move may be puzzling given the Fed's insistence it was on track for four hikes this year—even in the face of market volatility to start the year. While global concerns have faded in recent weeks, with strong recoveries in equity and credit markets, the Fed remains on alert, declaring in its official statement that "… global economic and financial developments continue to pose risks."

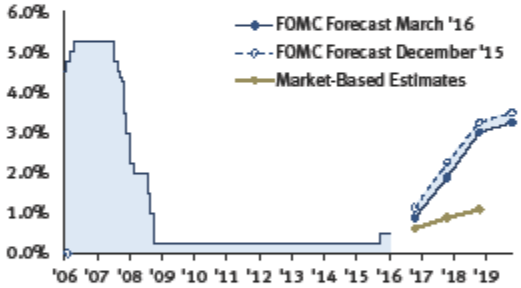
The confusion may be compounded by the fact that the unemployment rate stands at just 4.9%, and that we have seen recent signs of building inflation pressures, as the Fed's preferred Personal Consumption Expenditure Index has risen to 1.7%, which RBC Capital Markets forecasts could reach the Fed's 2% target by summer. However, Fed Chair Janet Yellen appeared largely dismissive of both developments during her press conference. Despite low unemployment, she still sees slack in the labor market. And she sees the rise in inflation only as a temporary reflection of a few volatile components.

Letting Things "Run Hot"?

With the Fed coming close to meeting its dual mandate in terms of full employment (4.8%) and inflation (2%), we think the inaction signals that it wants a period of even lower unemployment and higher inflation to solidify this recovery.

The Fed Shifts to a Lower Interest Rate Path

Fed Funds Rate – The Market Still Remains Even Lower



Source - RBC Wealth Management, Bloomberg, Federal Reserve

MARKET PULSE

3 Take the U.S. Energy rally one step at a time

3 Huge headaches for Valeant Pharmaceuticals

3 Political landscape splintering in Germany

4 China signals policy easing to resurrect slowing economy

Click here for authors' contact information.
Priced (in USD) as of 3/18/16 market close, EST (unless otherwise stated).
For Important and Required Non-U.S. Analyst Disclosures, see Page 6.

RBC Wealth Management

First Trust
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Money Misperceptions

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1 – The Panic of 2008 was not caused by tight monetary policy. 2 – Zero percent interest rate policy (ZIRP) and Quantitative Easing (QE) did not save the US or global economies. 3 – Monetary policy in the US is getting looser as the Fed hikes rates, and, 4 – negative interest rates in Japan and Europe are not working.

How's that for four consecutive statements that are 180 degrees different than Conventional Wisdom? Most leaders in charge of the commanding heights of government believe the conventional wisdom, and cling to it like religion. But then, they all have a vested interest in it.

Many in the money management business, find it easy to believe as well. If central banks are all running very loose monetary policies, buy stocks, or bonds! And for short-sellers, and those who sell online newsletters and books about the end of the world, it's easy to say all this easy money is just a "currency war" that will end with hyper-inflation, trade wars and an economic catastrophe.

So, which is it? What's really going on? How does an investor decide? The best we can do is explain our more nuanced analysis. It's not really all that complicated, just different.

So first (1), it is important to understand that a 1% federal funds rate in 2003 helped fuel the Fannie and Freddie surge in sub-prime lending. It is also true that Fed rate hikes in 2004-06, with the funds rate moving above 5%, took away the super-easy credit and undermined those who had bought overpriced houses with adjustable-rate, sub-prime debt. Nonetheless, those rate hikes did not lead to a contraction in liquidity. No measure of money actually declined in 2007 or 2008.

It was mark-to-market accounting that created solvency issues, not liquidity issues. Questions about accounting created the crisis, not a lack of liquidity.

Second (2), QE was started in September 2008, TARP was passed 10/3/2008 and ZIRP soon after. Yet the market fell considerably more after these policy attempts to save the US. It wasn't until mark-to-market accounting was changed in March/April 2009 that stocks and the economy bottomed - the Panic was finally over. Since then, the US has had a slow, but normal (meaning driven by entrepreneurship) recovery.

Third (3), even though the Fed bought $3.5 trillion of bonds during its QE operations, banks sat on most of this cash holding it as excess reserves. Even though the monetary base was rising at a 25% annualized clip, M2 (all deposits in all banks) kept growing at a 6% annual rate. This is why the dollar never collapsed and the US did not experience hyper-inflation.

In fact, the December Fed rate hike was the first rate hike in history where bank reserves were not contracted. There are still $2 trillion in excess reserves in the system. Money is not tight at all, and the M2 money supply has accelerated to a near 8% growth pace. The US money supply is accelerating as rates move higher and it is more profitable to lend.

Finally (4), negative interest rates encourage cash hoarding. Why not hold cash and get a zero percent rate, especially when deposits potentially face negative rates? M2 money supply growth in Europe during Q4-2015 was just 5.3% and loans are growing slowly. In Japan, M2 declined in February from January and is only up 3.1% in the past year.

In other words, the M2 money supply is growing faster in the US than it is in Japan and Europe. No wonder the dollar is weaker today versus the yen and the euro than it was a year ago.

It's so easy to say that the US is raising rates, while Europe and Japan are cutting, so the dollar will get strong, but this has it backward because the experimental policies of global central banks are not working.

The only way to get faster growth in any country is to use the fiscal policy levers - tax cuts, spending cuts, and regulatory relief - what the PC-crowd calls "structural reforms" in order to shield politicians behind rhetoric. But the real story is that growth in the US is accelerating and that bodes well for investors who can cut through the clutter, believe in entrepreneurship and tune out the government's "press agents."

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
3-21 / 9:00 am	Existing Home Sales – Feb	5.310 Mil	**5.240 Mil**	5.080 Mil	5.470 Mil
3-23 / 9:00 am	New Home Sales – Feb	0.510 Mil	**0.511 Mil**		0.494 Mil
3-24 / 7:30 am	Initial Claims Mar 21	268K	**268K**		265K
7:30 am	Durable Goods – Feb	-3.0%	**-3.4%**		+4.7%
7:30 am	Durable Goods (Ex-Trans) – Feb	-0.3%	**-0.2%**		+1.7%
3-25 / 7:30 am	Q4 GDP Final Report	1.0%	**1.0%**		1.0%
7:30 am	Q4 GDP Chain Price Index	0.9%	**0.9%**		0.9%

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Minutes taken by Mike Oliver