

CAPITALE | INVESTMENTS

Market expectations for 4th quarter and the next 12 months

Dear friends and clients,

Here are my latest thoughts on the markets for your review.

U.S Economy

We expect the U.S economy to grow at a moderate pace over the next quarter and the following 12 months. Inflation should trend higher as the recovery continues. With the unemployment rate hovering below 5%, conditions in the labor market will improve as wage growth trends upwards. Rising household income will fuel consumer spending, while the upward trend in housing starts and home prices will continue, further underpinning economic growth. The inventory cycle correction, which has been a drag on growth since last year, appears to be nearing an end, further supporting better economic growth ahead.



FED Funds

I believe that a 25 bps increase in FED Funds is justified and should take place in December. This comes with a backdrop of a tight labor market, higher headline inflation and greater clarity on the election.

Oil

As we look out over the 4th quarter and the following 12 months we expect oil inventory drawdowns, mainly as demand from emerging Asian economies continues to grow. We expect oil prices to be more fully balanced at around \$55 a barrel.

US Stock Market

We expect positive EPS growth for the SP 500 for the remainder of 2016 and in 2017. Higher profit margins should be sustained, with a moderate acceleration in revenues driving the earnings rebound. Rising commodity prices, driven by improving global growth should add to stronger EPS growth.

2016 EPS --> \$123

2017 EPS --> \$130

This should put the SP 500 around 2300 up around 7% to 8% over the next 12 months.

Risks to this scenario = Political (election) uncertainty is a potential risk for growth and the markets.

Please feel free to contact me should you have any questions.

Sincerely,

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