

# Economic Impact on Asset Allocation

## Episode I of a Three-part Series

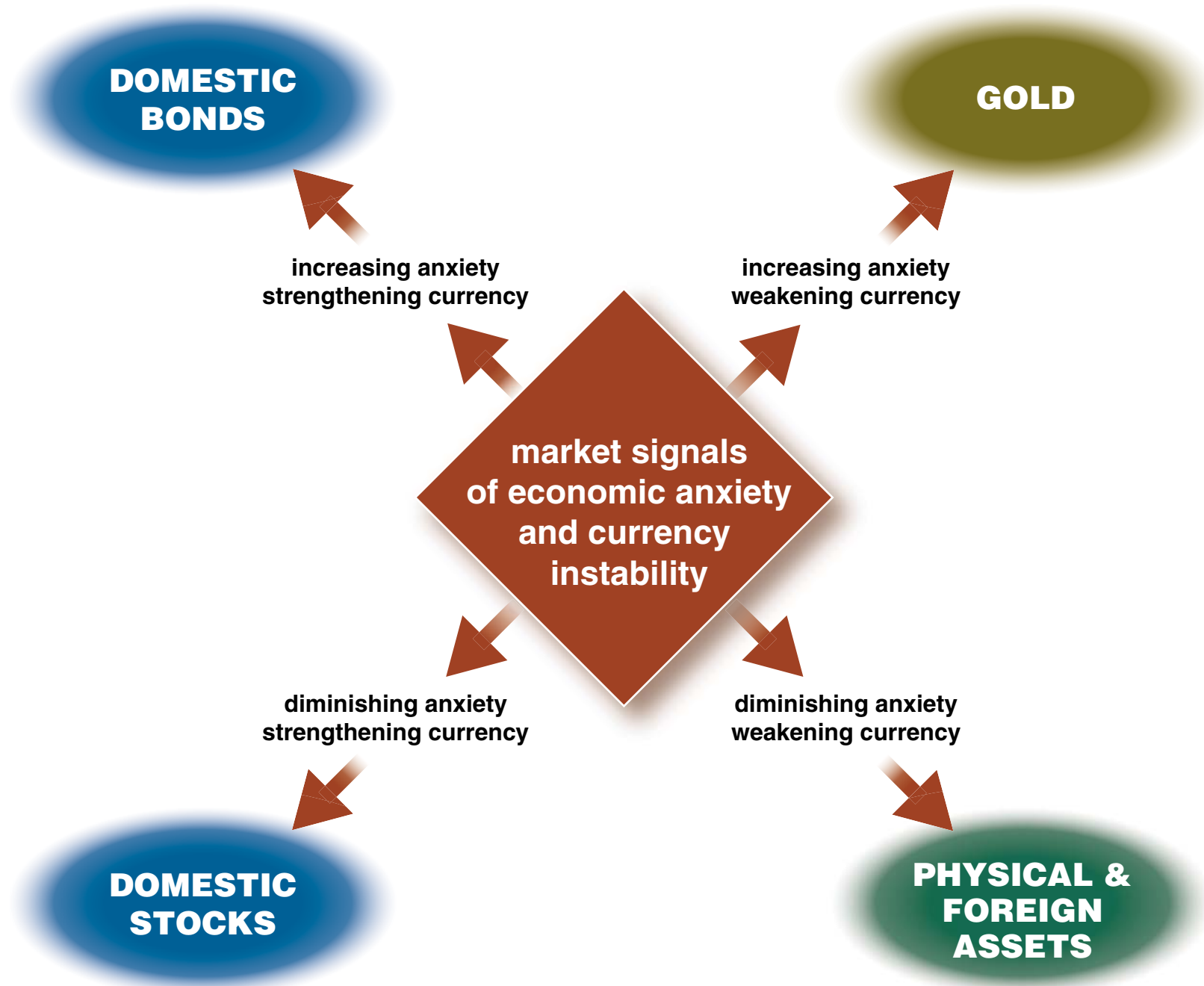
*David Ranson,*  
*[d.ranson@hcwe.com](mailto:d.ranson@hcwe.com)*  
*HCWE & Co.*

*presented before*  
*Atlanta Society of Financial and Investment Planners*  
*January 5, 2017*

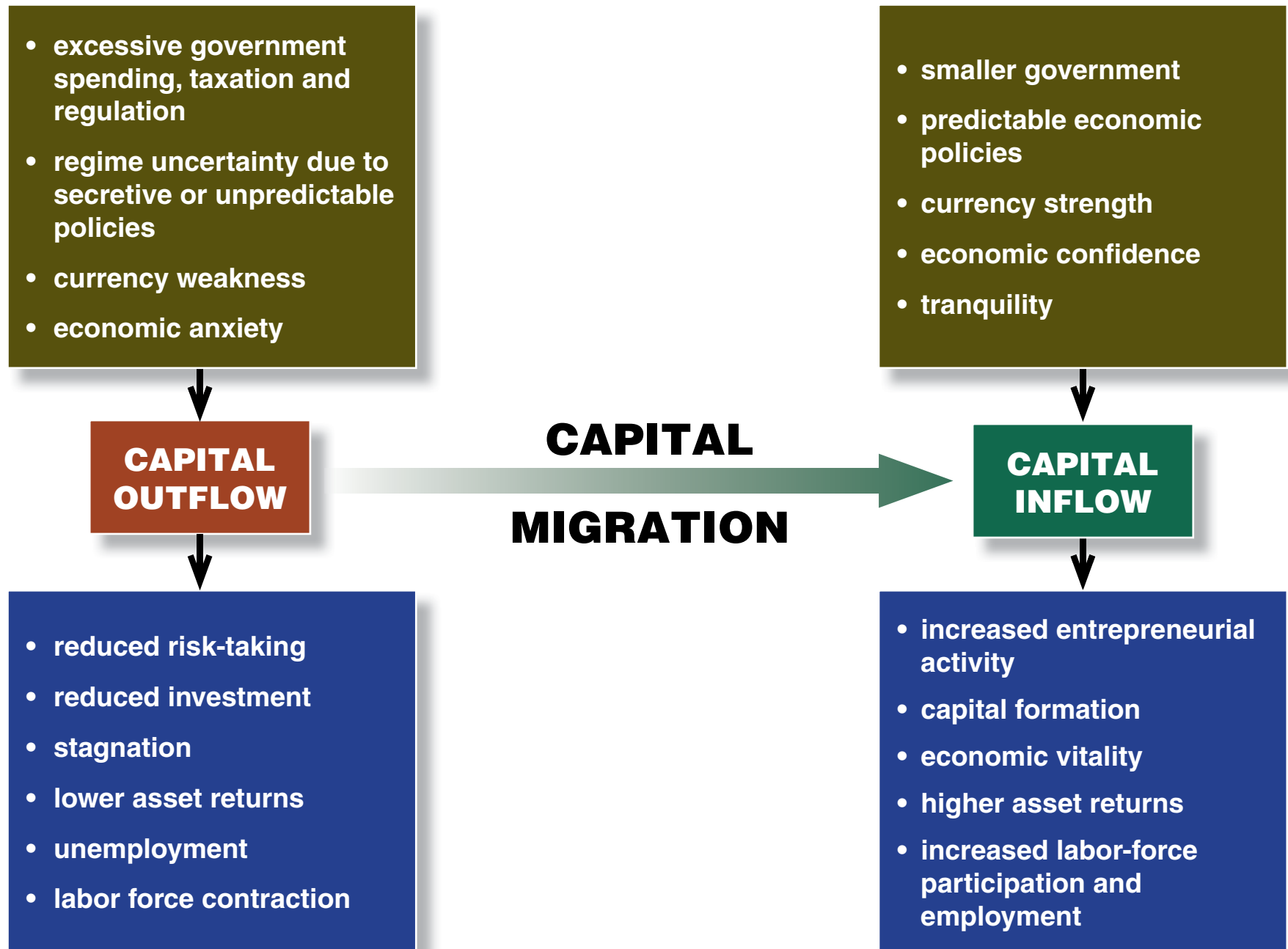


HCWE & Co., Cambria CA

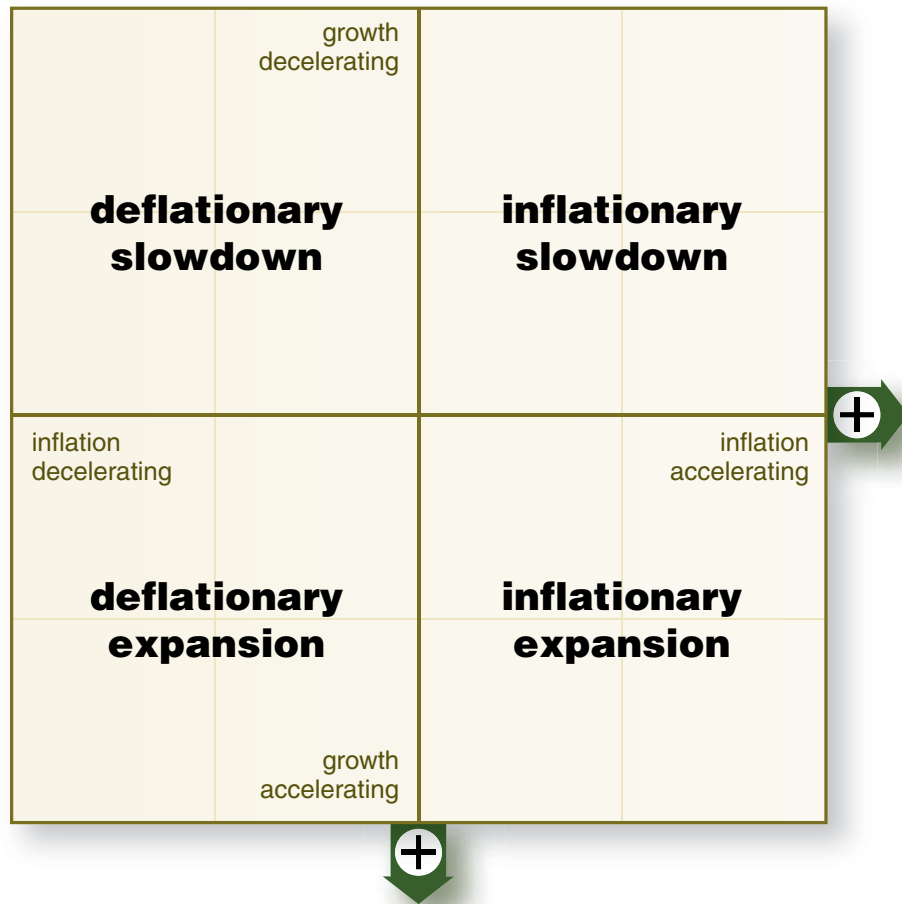
## Two Market Signals and Four Primary Asset Classes



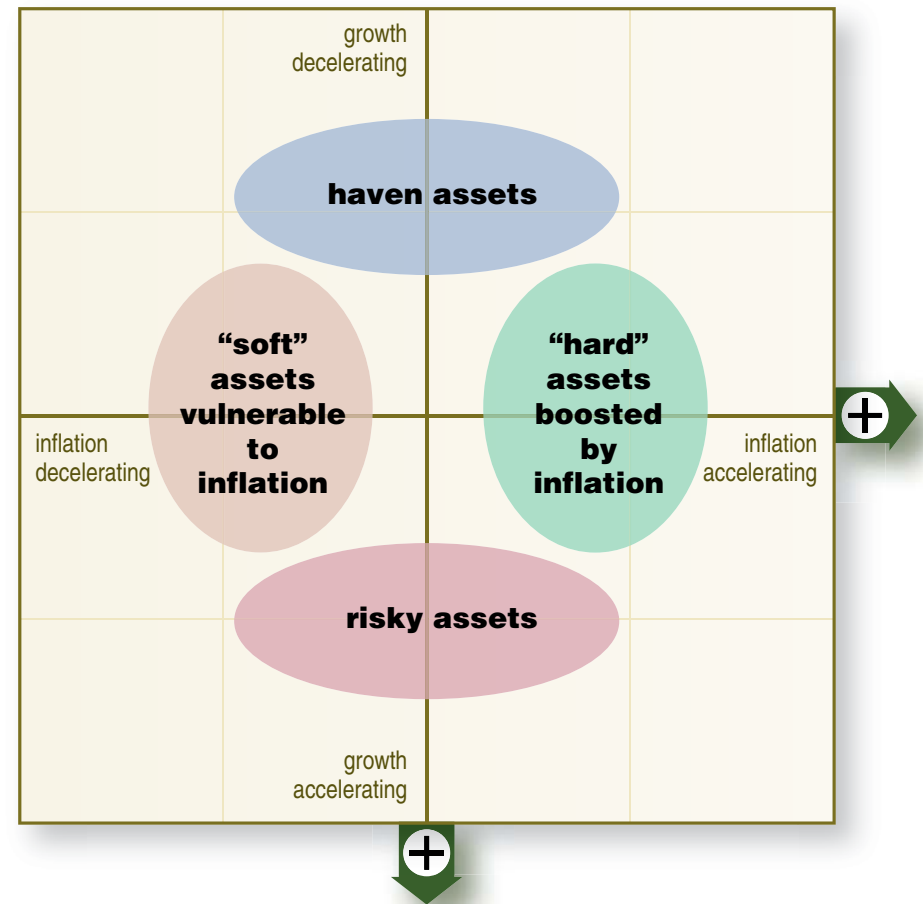
# The Central Role of Capital Migration in Economic and Investment Success



## Four Primary Economic Scenarios

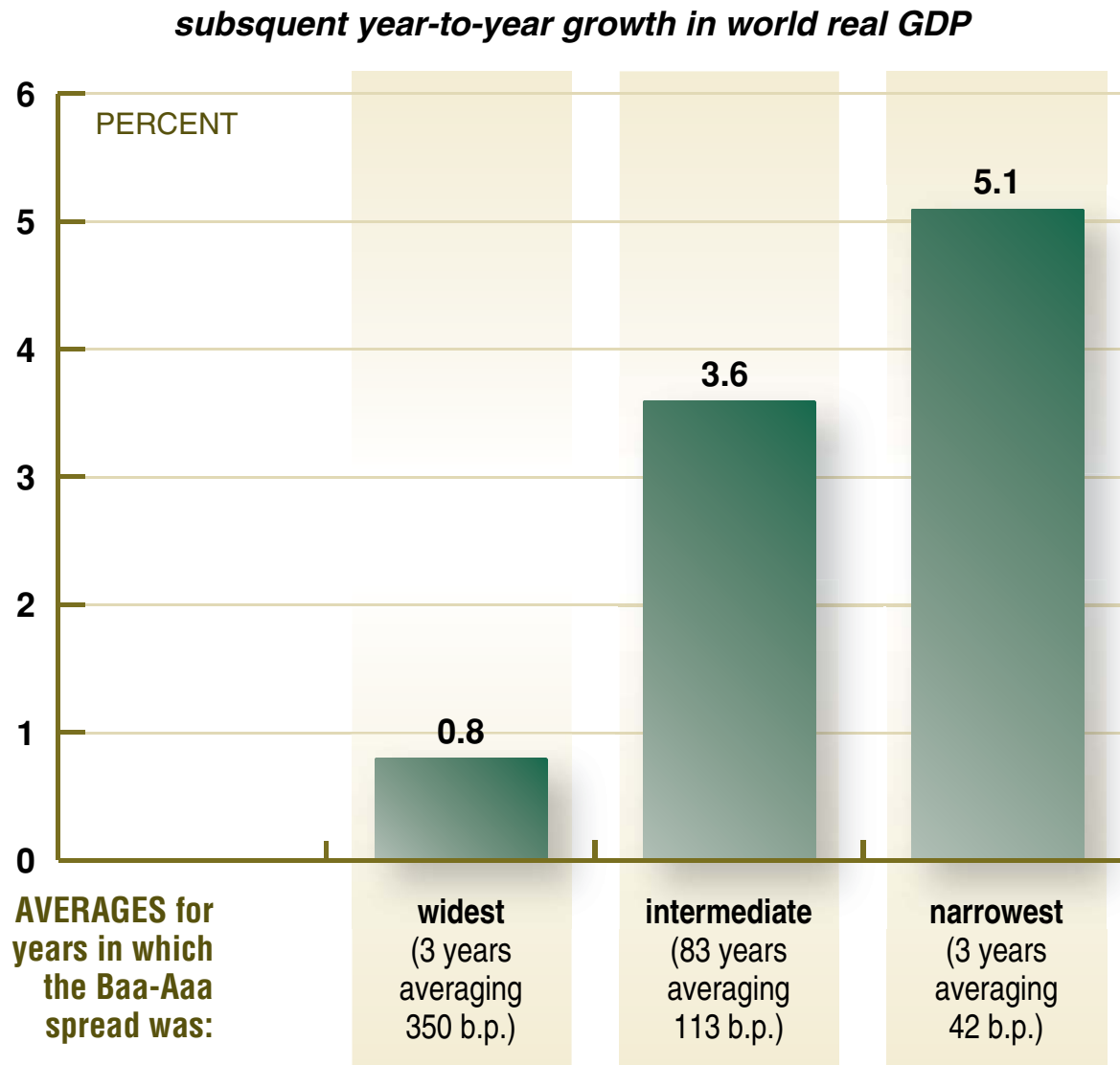


## Using Scenarios to Classify Assets



# Levels of Multinational Credit Spreads as an Indicator of World Growth

from 1918

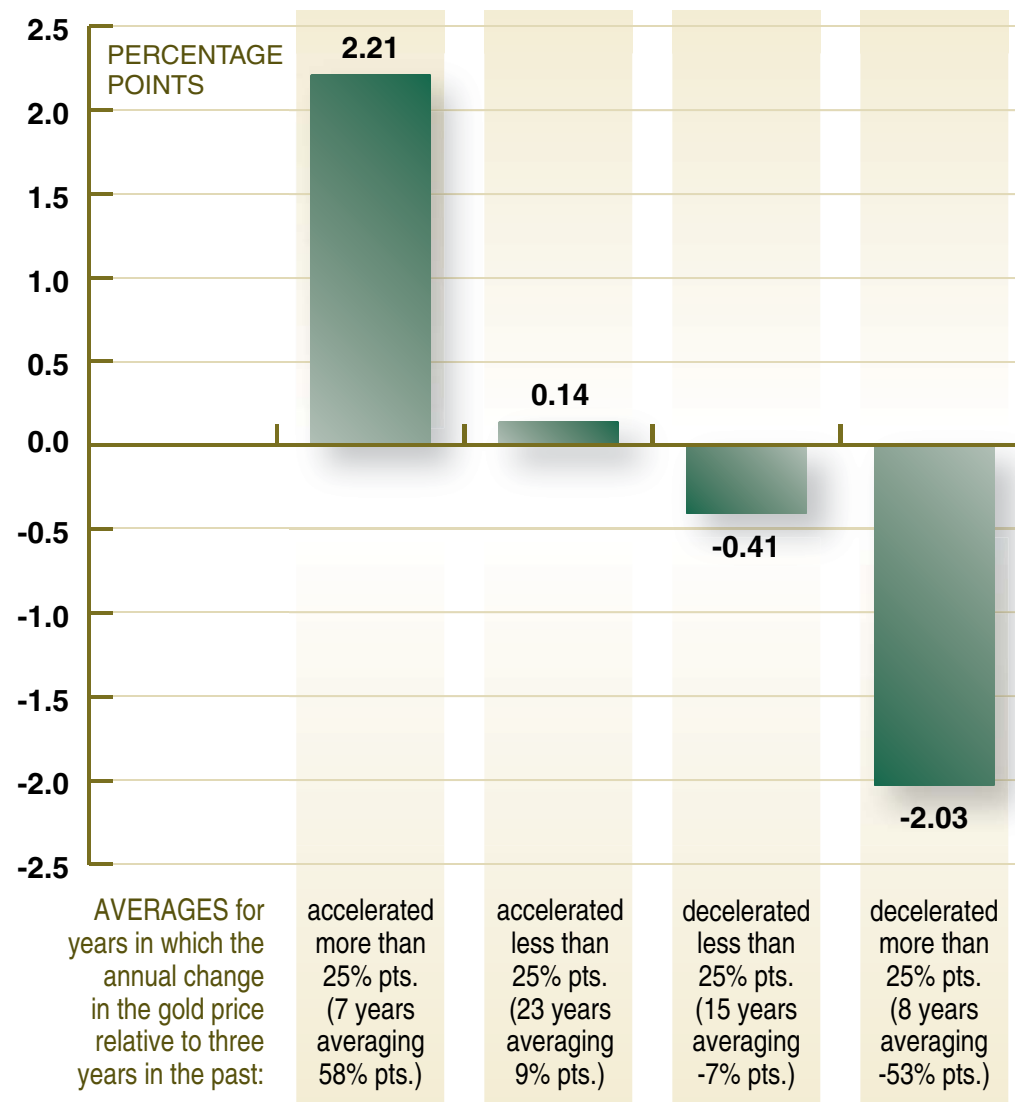


**Data:** Data: Annual real gross domestic product of the United States; and the annual growth of world real GDP based on a limited sample of major countries (Angus Maddison at [www.gdpc.net/maddison](http://www.gdpc.net/maddison)). Both sets of GDP estimates are defined in terms of purchasing-power-parity (PPP) accounting, together with calendar-year averages of daily yields on Baa and Aaa corporate bonds (Moody's/Federal Reserve Board).

# The CPI is Tied to Gold with a Lag

up to two years ahead, from 1957

*impact of changes in the gold-price on the Headline Consumer-price Index*



**Data:** Calendar-year averages of daily prices for gold (*Metals Week/Wall Street Journal*) and of monthly US consumer prices (Federal Reserve Bank of New York/Bureau of Labor Statistics).

## Economic Growth and Asset Returns

calendar-year average data from 1969

years in which real GDP growth:	average year-to-year change in:			
	return from stocks (% pts.)	return from T-bonds (% pts.)	price change in gold (% pts.)	price change in commodities (% pts.)
<b>accelerated</b> (22 years averaging 1.9% pts.)	+4.3	-3.4	-5.5	+2.2
<b>decelerated</b> (23 years averaging -1.7% pts.)	-3.2	+3.8	+5.5	-3.2

**Data:** Calendar-year real gross domestic product (Bureau of Economic Analysis), together with month-end return indices for the S&P 500 companies and long Treasury bonds (University of Chicago/Dimensional Fund Advisors) and month-end prices for spot gold (*Metals Week*) and non-precious commodities (Reuters Bridge Commodity Research Bureau). Crude oil, industrial metals, foodstuffs and textiles are given equal weight, and the index is rebalanced monthly.

## CPI Inflation and Asset Returns

calendar-year average data from 1969

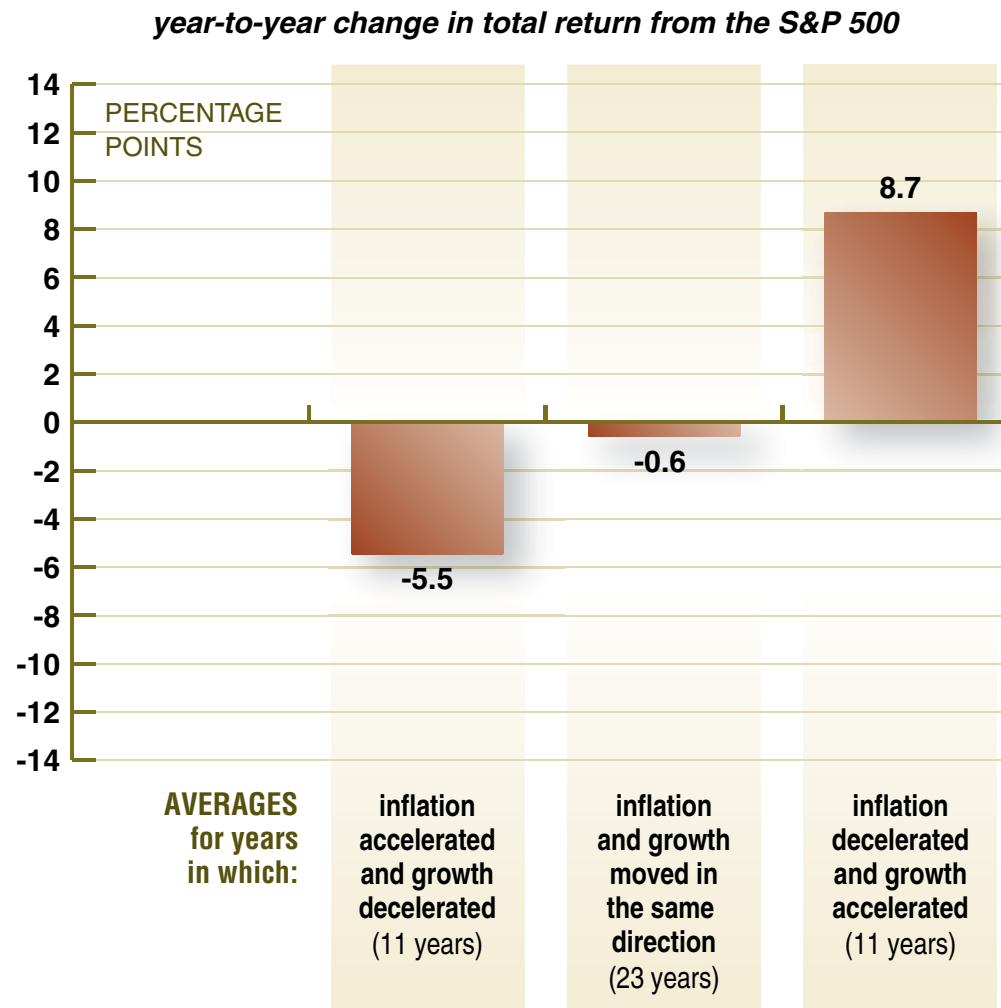
	AVERAGE year-to-year change in:			
<i>years in which real CPI inflation:</i>	<i>return from stocks (% pts.)</i>	<i>return from T-bonds (% pts.)</i>	<i>price performnace of gold (% pts.)</i>	<i>price performance of commodities (% pts.)</i>
<b>accelerated</b> (22 years averaging 1.3% pts.)	<b>-2.8</b>	<b>-3.0</b>	<b>+6.3</b>	<b>+8.5</b>
<b>decelerated</b> (23 years averaging -1.5% pts.)	<b>+3.6</b>	<b>+3.3</b>	<b>-5.8</b>	<b>-9.3</b>

**Data:** Calendar-year averages of the headline consumer price index for all urban consumers (Bureau of Labor Statistics), together with month-end return indices for the S&P 500 companies and long Treasury bonds (University of Chicago/Dimensional Fund Advisors) and month-end prices for spot gold (*Metals Week*) and non-precious commodities (Reuters Bridge Commodity Research Bureau). Crude oil, industrial metals, foodstuffs and textiles are given equal weight, and the index is rebalanced monthly.



# Stock-Market Behavior in Different Inflation-Growth Circumstances

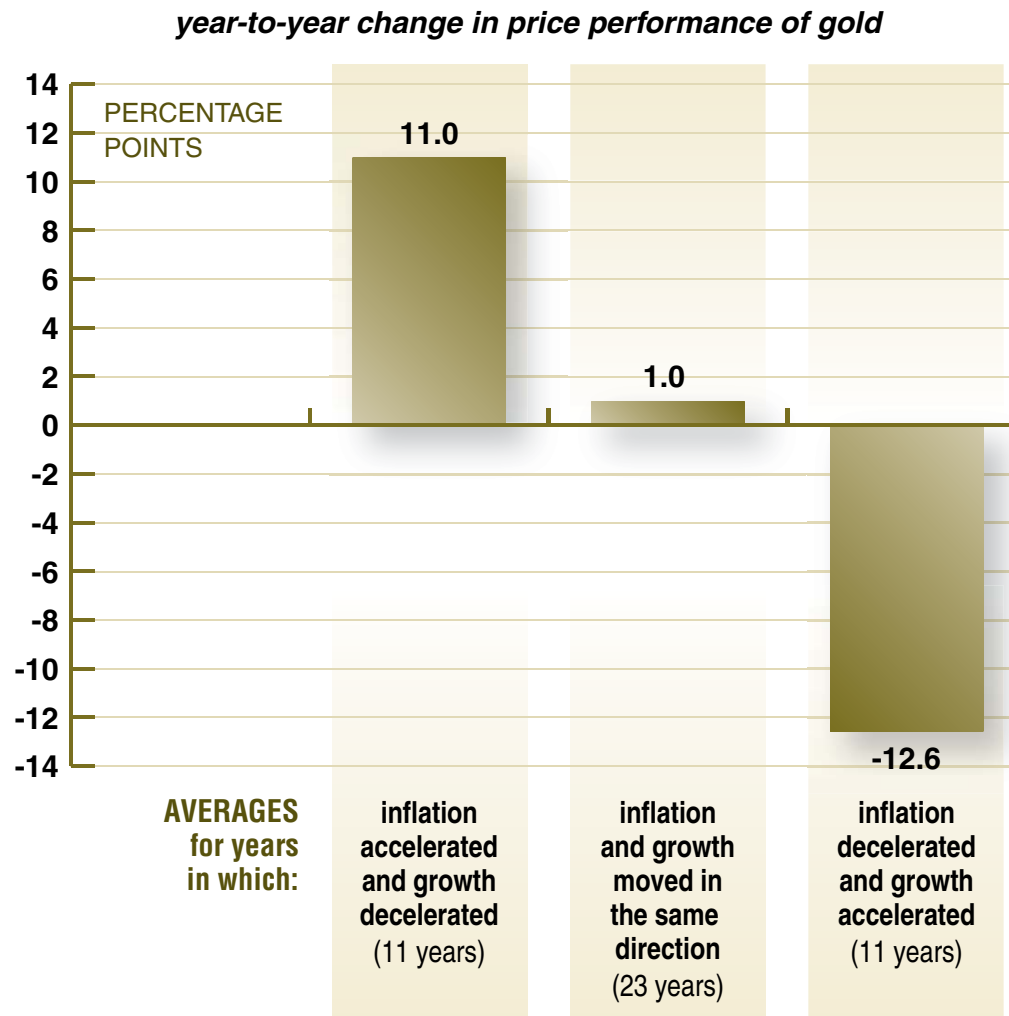
calendar-year average data from 1969



**Data:** Calendar-year averages of the headline price index for all urban consumers (Bureau of Labor Statistics), together with month-end return indices for the S&P 500 companies and long Treasury bonds (University of Chicago/Dimensional Fund Advisors) and month-end prices for spot gold (*Metals Week*) and non-precious commodities (Reuters Bridge Commodity Research Bureau). Crude oil, industrial metals, foodstuffs and textiles are given equal weight, and the index is rebalanced monthly. Calendar-year averages of the headline price index for all urban consumers (Bureau of Labor Statistics), together with month-end return indices for the S&P 500 companies and long Treasury bonds (University of Chicago/Dimensional Fund Advisors) and month-end prices for spot gold (*Metals Week*) and non-precious commodities (Reuters Bridge Commodity Research Bureau). Crude oil, industrial metals, foodstuffs and textiles are given equal weight, and the index is rebalanced monthly.

# Gold-Price Behavior in Different Inflation-Growth Circumstances

calendar-year average data from 1969

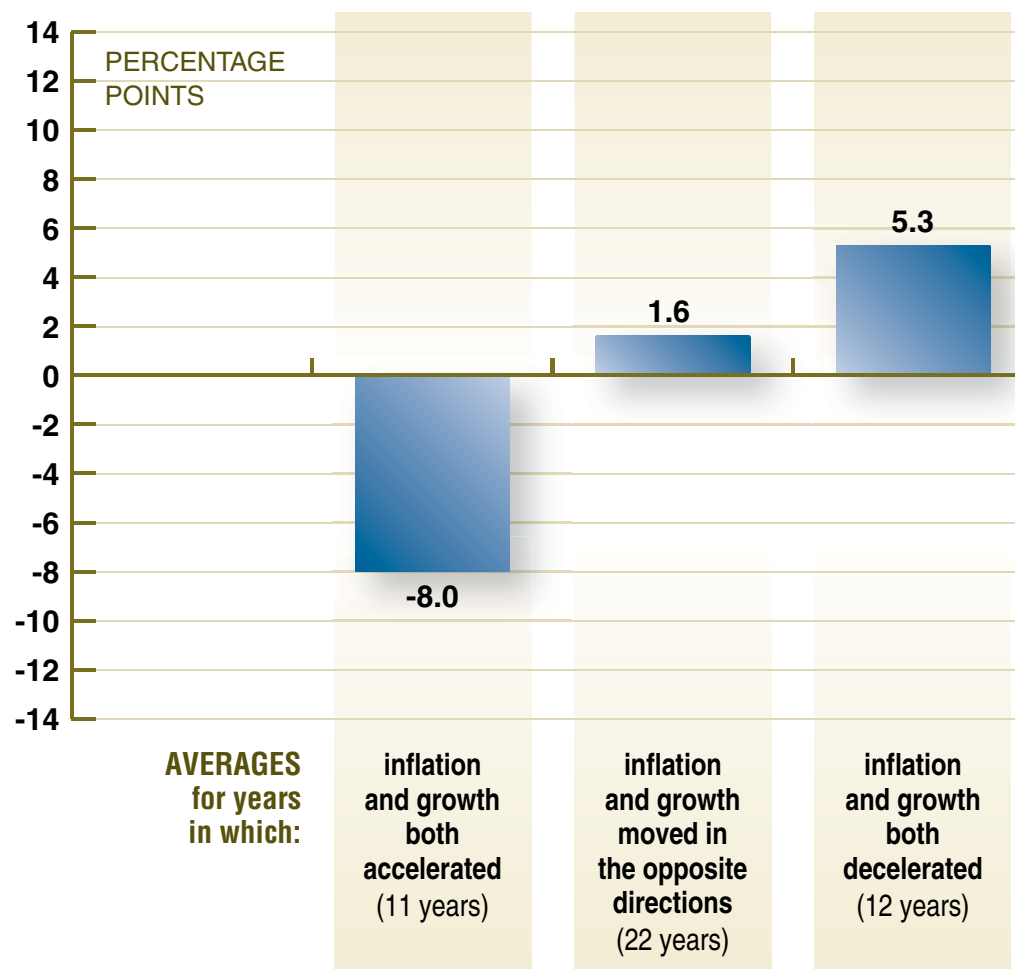


**Data:** Calendar-year averages of the headline price index for all urban consumers (Bureau of Labor Statistics), together with month-end return indices for the S&P 500 companies and long Treasury bonds (University of Chicago/Dimensional Fund Advisors) and month-end prices for spot gold (*Metals Week*) and non-precious commodities (Reuters Bridge Commodity Research Bureau). Crude oil, industrial metals, foodstuffs and textiles are given equal weight, and the index is rebalanced monthly. Calendar-year averages of the headline price index for all urban consumers (Bureau of Labor Statistics), together with month-end return indices for the S&P 500 companies and long Treasury bonds (University of Chicago/Dimensional Fund Advisors) and month-end prices for spot gold (*Metals Week*) and non-precious commodities (Reuters Bridge Commodity Research Bureau). Crude oil, industrial metals, foodstuffs and textiles are given equal weight, and the index is rebalanced monthly.

# Bond-Market Behavior in Different Inflation-Growth Circumstances

calendar-year average data from 1969

year-to-year change in total return from long T-bonds

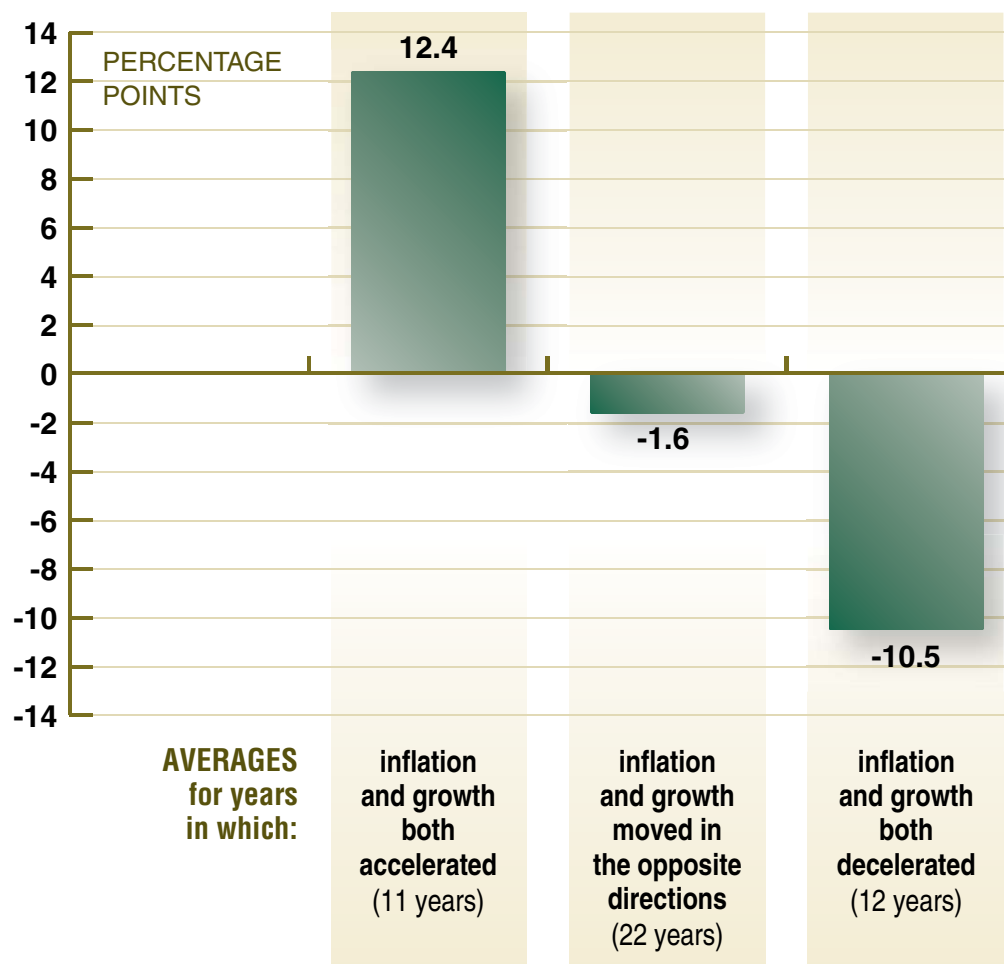


**Data:** Calendar-year averages of the headline price index for all urban consumers (Bureau of Labor Statistics), together with month-end return indices for the S&P 500 companies and long Treasury bonds (University of Chicago/Dimensional Fund Advisors) and month-end prices for spot gold (*Metals Week*) and non-precious commodities (Reuters Bridge Commodity Research Bureau). Crude oil, industrial metals, foodstuffs and textiles are given equal weight, and the index is rebalanced monthly. Calendar-year averages of the headline price index for all urban consumers (Bureau of Labor Statistics), together with month-end return indices for the S&P 500 companies and long Treasury bonds (University of Chicago/Dimensional Fund Advisors) and month-end prices for spot gold (*Metals Week*) and non-precious commodities (Reuters Bridge Commodity Research Bureau). Crude oil, industrial metals, foodstuffs and textiles are given equal weight, and the index is rebalanced monthly.

# Commodity-Price Behavior in Different Inflation-Growth Circumstances

calendar-year average data from 1969

*year-to-year change in price performance of commodities*



**Data:** Calendar-year averages of the headline price index for all urban consumers (Bureau of Labor Statistics), together with month-end return indices for the S&P 500 companies and long Treasury bonds (University of Chicago/Dimensional Fund Advisors) and month-end prices for spot gold (*Metals Week*) and non-precious commodities (Reuters Bridge Commodity Research Bureau). Crude oil, industrial metals, foodstuffs and textiles are given equal weight, and the index is rebalanced monthly. Calendar-year averages of the headline price index for all urban consumers (Bureau of Labor Statistics), together with month-end return indices for the S&P 500 companies and long Treasury bonds (University of Chicago/Dimensional Fund Advisors) and month-end prices for spot gold (*Metals Week*) and non-precious commodities (Reuters Bridge Commodity Research Bureau). Crude oil, industrial metals, foodstuffs and textiles are given equal weight, and the index is rebalanced monthly.

## A Scheme for Analyzing Expected Future Returns from Major Asset Classes

as a function of leading indicators of inflation and growth

Outlook for:		Inflation	
		<i>favorable</i>	<i>unfavorable</i>
Growth	<i>unfavorable</i>	Bonds ++ Stocks/Gold Hard assets – –	Gold ++ Hard assets/Bonds Stocks – –
	<i>favorable</i>	Stocks ++ Bonds/Hard assets Gold – –	Hard assets ++ Gold/Stocks Bonds – –

Contact [d.ranson@hcwe.com](mailto:d.ranson@hcwe.com) for a pdf copy of this presentation

David will return February 2, 2017  
to present the second episode in this three-part series:

## Constructing Low-Volatility Multi-Asset Portfolios

©2017 HCWE & Co. All rights reserved.

No portion of this report may be reproduced in any form without prior written consent. The information has been compiled from sources we believe to be reliable, but we do not hold ourselves responsible for its correctness. Opinions are presented without guarantee.



HCWE & Co., Cambria CA

P . O . B o x 1108 · C a m b r i a , C A 93428 · U S A

Phone +1(978)468-4575 · [www.hcwe.com](http://www.hcwe.com)