The Cobblestone Advisor
Investment Brief

COBBLESTONE
CAPITAL ADVISORS

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## Uncertainty Builds Ahead of Election

As our nation prepares to vote for a new President on November 8th, many of our clients are expressing deep uncertainty around the potential ramifications of the election for the economy and their portfolios (not to mention any number of things that we are not qualified to opine on!). Unfortunately, when we all wake up on November 9th, it is likely that very little of the uncertainty will have been alleviated. For most, the conversation will quickly turn from "Who is it going to be?" to "What happens now?". Politically speaking, new decision makers will arrive on the scene, priorities will start to emerge, and the work of implementing campaign promises will begin in earnest. It will be fascinating to watch and could potentially result in some changes that will impact our lives in a very meaningful way.

Economically, however, most people will eventually come to realize that, when all is said and done, there is very little the President of the United States alone can do to meaningfully alter the trajectory of the U.S. economy. The primary reason is, of course, constitutional. Sweeping changes are very difficult to enact without a willing Congress and, even then, the impact of those changes can take years to be felt.

What's more, two of the most powerful influences on the economy right now are almost entirely outside of the President's control. First is monetary policy. Somewhat ironically, the removal of the uncertainty around the election may allow the Federal Reserve, an institution that professes to be independent and free of political influence, to begin to normalize interest rates after eight years of extremely low rates. As the charts at the bottom of this page show, both inflation and unemployment are approaching key levels that could compel action by the Federal Reserve. As of the writing of this letter, the markets are currently pricing in a 65% chance that the Fed raises rates at their meeting in December.

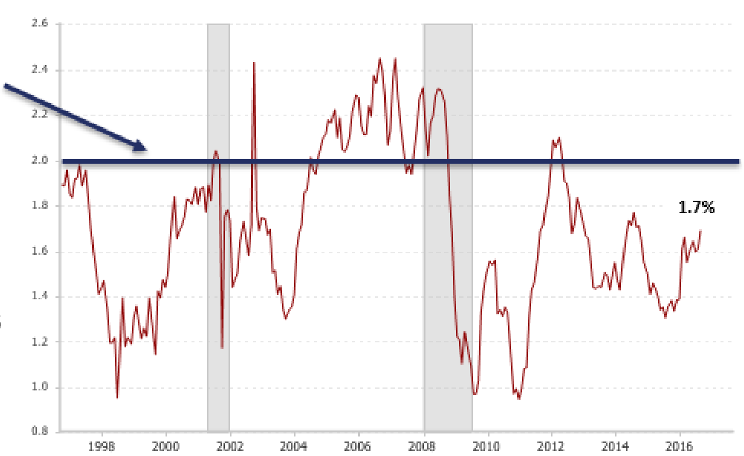
Second, as the chart on the back page indicates, nonfarm productivity—a measure of the economy's output for every hour worked— since 2007 has been the lowest of any economic cycle since World War II. This

(Continued on page 2)

### Unemployment


Source: U.S Bureau of Labor Statistics

### Inflation




Source: Core PCE (YOY), Bureau of Economic Analysis

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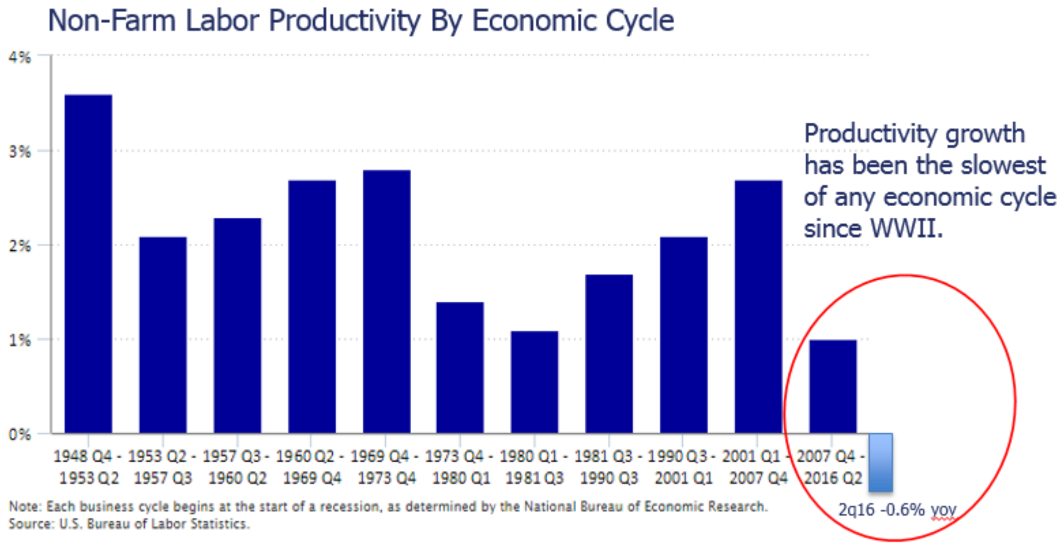
is an incredibly important, but largely unreported, reason that economic growth has been so anemic during this recovery. And, like monetary policy, there is very little even the most powerful person in the world can do to impact productivity in the short run. As economist Marc Levinson put it in a recent Wall Street Journal piece:




"Productivity, in historical context, grows in fits and starts. Innovation surely has something to do with it, but we have precious little idea how to stimulate innovation—and no way at all to predict which innovations will lead to higher productivity."

What this means is that it is very unlikely that productivity is going to rise dramatically in a short period of time, simply because we have a new man or woman occupying the White House. By extension, the likelihood of a consequential acceleration in long-term trend for GDP growth in the short-term is probably quite small.

While most would agree that more growth is better than less, a continuation of the slow growth we've seen in this recovery would not be all bad. Slow growth means the economy is less likely to overheat and, thus, there is a very real possibility that the slow economic expansion could continue for years to come. Furthermore, as we have seen this year, slow growth does not necessarily mean the stock market cannot provide us with solid returns.

On the other hand, an economy that is growing at barely above stall speed is more susceptible to all manner of unanticipated shocks from any number of sources. So while the expected returns at this point in the cycle may be adequate, the range of possible outcomes around these expected returns is quite wide. Given this uncertainty, it is increasingly difficult for us to justify aggressive positioning in client accounts. Expect us to continue to position client portfolios to protect against, and take advantage of, the uncertainty ahead.

| ***Total Return Ending 9/30/2016*** | | | | Annualized | | |
|---|---|---|---|---|---|---|
| | Qtr | YTD | 1 Year | 3 Years | 5 Years | 10 Years |
| **MSCI All Country World Index** | 5.30% | 6.60% | 11.86% | 5.15% | 10.59% | 4.32% |
| **Russell 3000 Stock Index** | 4.40% | 8.18% | 14.84% | 10.39% | 16.29% | 7.34% |
| **S&P 500 Stock Index** | 3.85% | 7.84% | 15.30% | 11.10% | 16.31% | 7.21% |
| **Russell 2000 (Small Cap Stocks)** | 9.05% | 11.46% | 15.34% | 6.67% | 15.76% | 7.04% |
| **MSCI EAFE (International Stocks)** | 6.43% | 1.73% | 6.47% | 0.47% | 7.36% | 1.81% |
| **MSCI EMF (Emerging Markets)** | 9.03% | 16.02% | 16.65% | -0.56% | 3.02% | 3.93% |
| **Barclays US Aggregate Index** | 0.46% | 5.80% | 5.15% | 4.00% | 3.07% | 4.77% |
| **FTSE NAREIT All Equity REITs** | -1.21% | 12.31% | 20.76% | 13.78% | 15.91% | 6.35% |