WT WEALTHMANAGEMENT

GLOBAL ECONOMIC FORECAST....SLOW.

This is the time when everyone rolls out their forecasts (aka "guesses") for the year ahead. In fact, we did our own 2016 Market Outlook last month and prognosticated about the U.S. markets. Looking around the globe there are some experts that believe global GDP growth is going to go into reverse next year. One notable economist was quoted as saying "the world at the end of 2016 will be 3, 4 or even 5% poorer than it was at the beginning of the year". This is, of course, possible. We don't believe it to be the case but believe GDP is going to be hard to come by and best described as SLOW. In fact, as recently as of January 6, 2016, the World Bank reduced its global GDP outlook from 3.2% to 2.9% mostly on Emerging Market weakness.

For first time in recent memory economists have worried about the influence of China on global GDP. For much of the past decade, China has been the gas in the engine with unprecedented demand of natural resources and a major GDP contributor as the leading manufacturing in the world. Many observers believe there could be a GDP measurement problem in China. Can we really believe their GDP numbers? I'm not sure anyone has the answer to that.

When examining World GDP there are four major contributors; the United States (which we covered last month in our 2016 Market Outlook), China, the Eurozone and Japan. These four areas account for more than 50% of the worlds GDP. Let us take a closer look at China, the Eurozone and Japan.

GLOBAL ECONOMIC FORECAST **CONTINUED ON P2**

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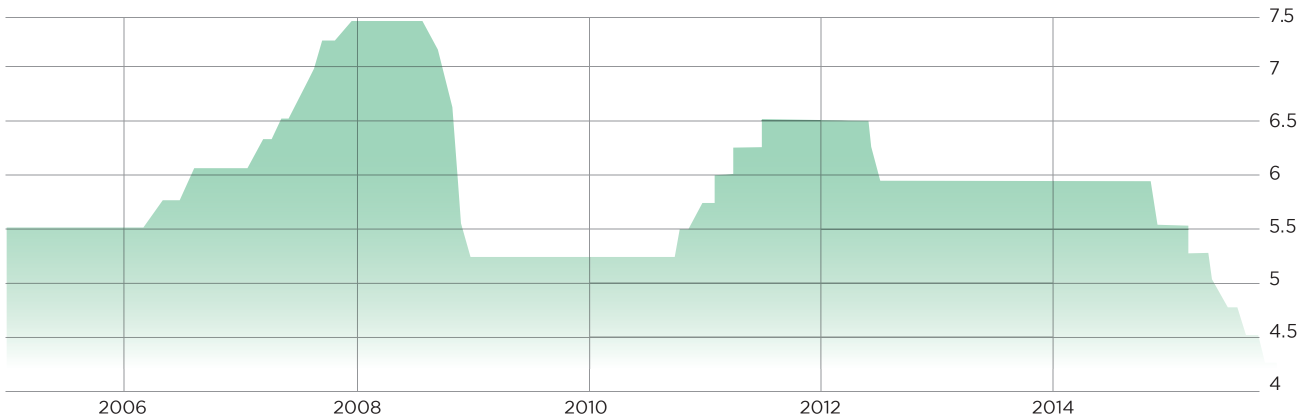
GLOBAL ECONOMIC FORECAST CONTINUED

CHINA

China's recent economic rise has been facilitated by a massive stimulus campaign. No emerging nation has ever tacked on debt at such a furious pace as China has done since 2008. History has shown that a rapid increase in debt is the single most reliable predictor of future economic slowdowns and financial crises. Policymakers in Beijing have been trying to sustain an unrealistic and randomly selected growth target of 7 percent by steering cheap loans into one bubble after another-first housing, and most recently the stock market -only to see each bubble collapse. While China reported that its GDP grew exactly in line with its growth target of 7 percent in the first three quarters of 2015, all other independently-collated data -from electricity production to auto sales -indicate that economy activity is increasing at a pace closer to 5 percent.

CHINA INTEREST RATE



SOURCE: WWW.TRADINGECONOMICS.COM : THE PEOPLES BANK OF CHINA

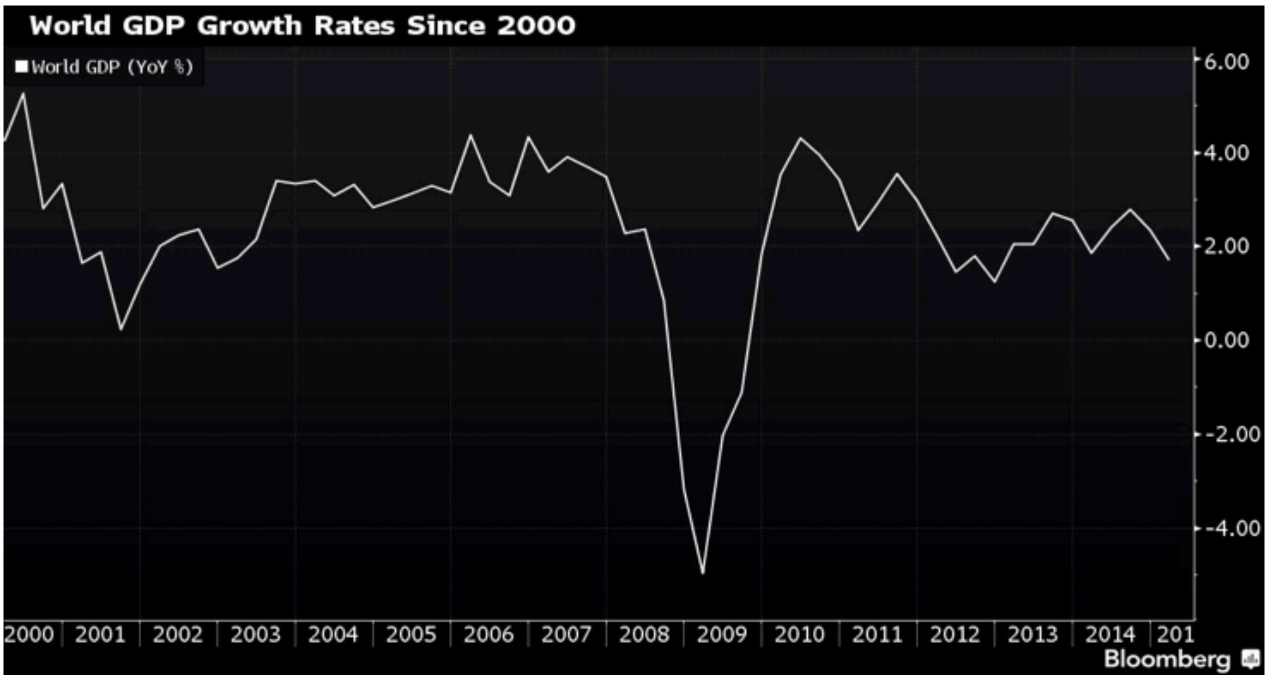
What happens to the Chinese economy is indeed going to be a major determinant of how global GDP goes. Simply stated, the stunning growth in China over the past few decades has made it a significant part of the world economy again, recently ranking #2 behind the U.S., according to The World Bank.

The US looks unlikely to grow at a rate that would counteract a Chinese slowdown and the Eurozone is hampered with the idiocy of the euro and certainly doesn't have the horsepower to make up the difference, in our opinion.

World GDP over the past several years is reflected in the below chart. It's been a series of non-starts as attempts to spark global growth has been hampered by a myriad of hurdles.

GLOBAL ECONOMIC FORECAST CONTINUED ON P3

GLOBAL ECONOMIC FORECAST CONTINUED



Adding to global GDP struggles, any potential China slowdown will affect many of the Emerging Market countries around the world. A great deal of the Emerging Markets growth has been from feeding the raw materials into China's booming -or what some would called a propped up- economy. Never-the-less, the China draw on raw material consumption has been powerful.

In our opinion, we'd be cautious about China. They may be too big to ignore and even if the growth rate is "only" 5 percent, that's the best in the world. But the volatility maybe too much for all but the most risk tolerant and long-term investors. At WT Wealth Management we feel alternatives in more developed and regulated economies like the United States, Japan and Europe are a safer, more conservative investment and we can sleep easier with assets deployed in those regions.

JAPAN

Simply put, their current economy is full of uncertainty. Japan's GDP, a comprehensive measure of economic activity, for the second quarter (April–June) of this year was down 0.5 percentage points in real terms (annualized) from the preceding quarter, which was followed by an increase of a 1.0 percentage point in the following quarter (July–September) on the same basis. Thus far, the economy has been hanging in the balance in fiscal 2015, and will most likely end up with annual growth of less

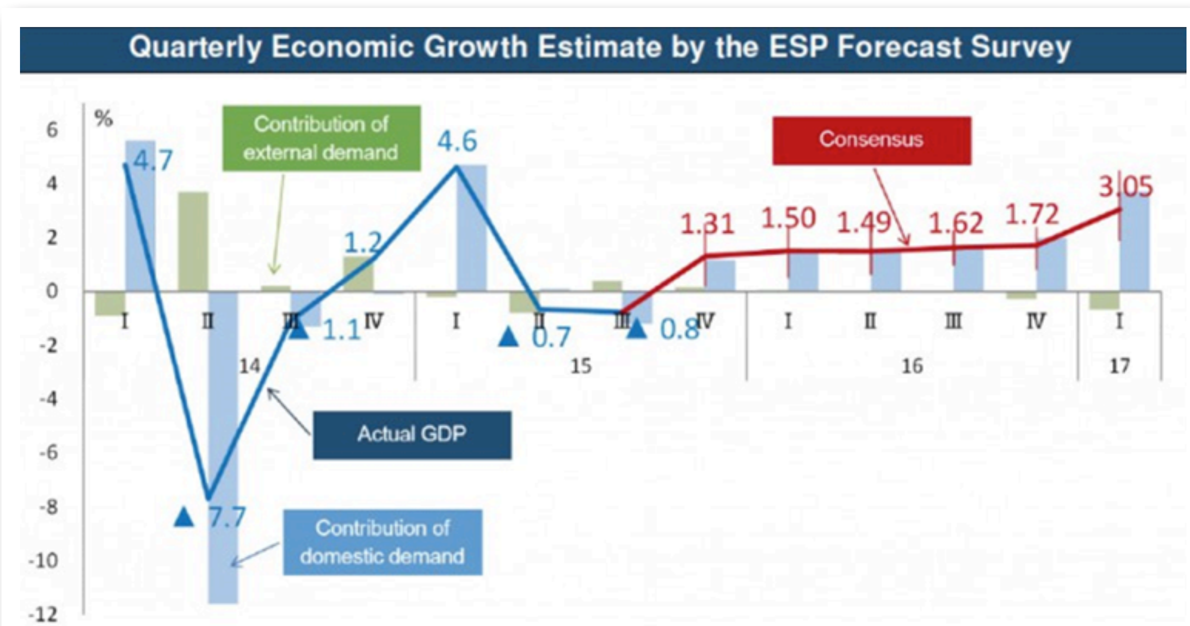
GLOBAL ECONOMIC FORECAST CONTINUED ON P4

than 1% for 2015. In view of the fact that the Japanese government expected growth of 1.5%, it is obvious that the economy this year underperformed expectations.

Just look at how the Japanese government views the current economic situation in Japan. Its views clearly reflect the uncertainty and somewhat concerned mood. According to the Assessment of the Current State of the Japanese Economy in the Monthly Economic Report for November 2015 released by the Cabinet Office, they stated:

> **"THE JAPANESE ECONOMY IS ON A MODERATE RECOVERY, WHILE WEAKNESS CAN BE SEEN IN SOME AREAS."**

This assessment seems to suggest that the government still maintains its view that the "economy is still recovering." How the economy will develop after the current period of standstill is the important part. Financial markets look ahead, not backwards. The view that "moderate recovery will continue" seems to represent a consensus of opinion among the market experts most follow. Most economists (see chart below) expect that Japan's GDP will start growing again after the third quarter (October–December) of fiscal 2015 and will maintain growth at around 1.5% growth over the course of the next fiscal year.



The primary reason why economists believe that a moderate recovery will continue is that corporate earnings, as well as the labor situation, remain on an uptrend in Japan. According to the Financial Statement Statistics of Corporations by Industry, which are published quarterly by the Ministry of Finance Japan, corporate earnings in terms of recurring profit continued to show high growth, recording a 9% increase in the second quarter (July–September) of fiscal 2015 on a year-on-year basis.

Another piece of good news is that crude oil prices have continued to fall in recent months. Many believe that the central bank will extend its drastic monetary easing program for some time and the government will remain reluctant to implement fiscal policies that would have a negative impact on the economy. In other words, the trend seen during 2015 will most likely stay unchanged with no particular negative repercussions expected on the economy leading to a setback.

GLOBAL ECONOMIC FORECAST CONTINUED ON P5

GLOBAL ECONOMIC FORECAST CONTINUED

Having said that, the current situation raises some concerns. One of those concerns is that domestic demand has remained sluggish despite record corporate profit. According to the basic economic principles of business cycles, higher corporate earnings will boost capital expenditure, leading to wage increases. This sequential flow beginning with higher corporate earnings is usually expected to lead to higher household income. Unfortunately, this correlation does not seem to be very strong as of right now.

As a general rule, we'd rather have exposure to countries and regions that have an easy monetary policy like Japan. It's hard to not have an exposure to Japan especially in light of the uncertainty in China, the tightening campaign in the U.S. and unresponsiveness of the Eurozone.

EUROZONE

The Eurozone economy has benefited from strength in consumer spending, with more countries contributing to GDP growth than in the past. Growth is still modest, however, and not strong enough to stem deflation or significantly contribute to global GDP expansion. This has compelled the European Central Bank to extend monetary stimulus into 2016. Hope is that will support an acceleration of economic growth in 2016.

Expectations for additional stimulus were high prior to the ECB's December meeting, but we still believe the outlook for European stocks in 2016 is favorable, as economic growth may accelerate as a result of ECB's continued monetary stimulus campaign.

We see a mostly positive outlook for European stocks in 2016, due to the economy's potential for stronger growth and the European Central Bank's (ECB) recent decision to extend its timeframe for stimulating the economy.

Europe weathered multiple crises in 2015, including a flare-up in the Greek debt crisis, the migrant crisis and terrorism. Despite these challenges, economic growth has been fairly steady, led by consumer spending.

GLOBAL ECONOMIC FORECAST CONTINUED ON P6

GLOBAL ECONOMIC FORECAST CONTINUED

Consumer spending has been leading the Eurozone recovery, accounting for almost three-quarters of growth in the six quarters through September 2015. When 4th-quarter gross domestic product numbers are released, they are likely to show that consumer spending has remained strong, continuing an 18-month trend.

Consumer spending has benefited from strength in consumer sentiment, which reached a 14-year high over the summer in Germany. Consumers have positive outlooks on their incomes and are benefiting from low borrowing rates. Those factors have helped boost retail sales for the first 10 months of 2015 to their fastest pace of growth since 1994. It's very American, live life and borrow.

Although the early phase of the Eurozone's economic recovery was driven by strength in Germany, the recovery is now becoming more broad-based. Recently, the Italian and French economies have shown measured improvement. Italy's 2015 economic growth is expected show the fastest pace since 2010. The Organization for Economic Cooperation and Development's leading indicators for the Eurozone economy suggest the region will continue to grow modestly in coming months, accelerating in France and Italy while remaining stable in Germany.

The heightened state of alert for terrorism in Europe, if sustained, could slow economic growth. Even though it has improved, Eurozone growth hasn't been strong enough to forestall deflation. Lackluster demand can create an environment where businesses compete on price, and deflationary pressures build. If consumers and businesses believe future prices and demand will be lower, they may postpone spending and investment decisions, creating a downward spiral of economic contraction. Borrowers also are hurt by deflation, as incomes shrink but debts don't.

At its December meeting, the ECB lowered its inflation forecast and predicted inflation would not reach its 2% target until after 2017. Since the ECB has one mandate—price stability—it made several decisions aimed at keeping deflation at bay. It said it would continue its asset purchasing program for six months beyond its originally scheduled expiration date, until March 2017. It also pushed the deposit rate further into negative territory to increase the universe of assets eligible for purchase.

We feel the outlook for European stocks is favorable, due to a combination of positive consumer sentiment, low inflation and the ECB's continued monetary stimulus in 2016. Fiscal spending is likely to get a boost from spending on migrants and defense, while low oil prices, weak currencies and credit growth should also bolster economic expansion. The Eurozone is a decent bet when weighing risk and rewards.

We see Eurozone stocks benefiting as global growth plods along in 2016, potentially increasing corporate revenues and earnings. Valuations could improve as deflation risks ebb. Now is not the time to give up on Europe: It has displayed evidence it can overcome its challenges, albeit much slower than anyone could have anticipated.

A LOOK AT THE WORLD: GLOBAL GDP WORSE THAN OFFICIAL FORECASTS SHOW

Unfortunately, when looking at the entire world, the world's economy is growing at a slower pace than the International Monetary Fund and other large forecasters are predicting in our opinion.

Reports show, the world economy is currently growing at its weakest pace since it began recovering in 2009,

A LOOK AT THE WORLD CONTINUED ON P7

A LOOK AT THE WORLD CONTINUED

with global GDP growth for 2015 estimated to end the year at 2.5 percent in real terms. But measured in nominal dollar terms, global GDP will likely contract by about 5 percent in 2015. This would be just the third time that the global economy has shrunk in nominal GDP terms since 1980.

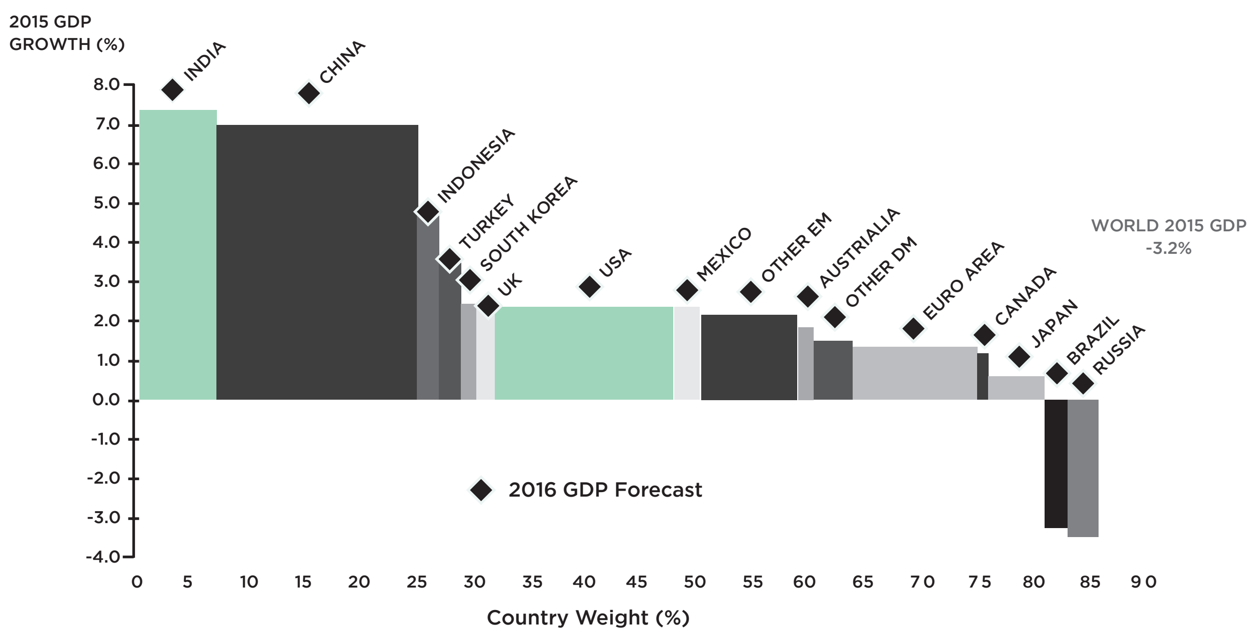
Most economists expect the dollar to rise against other currencies into the near future, as the Federal Reserve continues to raise interest rates. This means that economic activity conducted in other currencies, when measured in dollars at those market rates, is worth less. We're not in fact saying that growth is going to fall when measured in renminbi, euros, yen or pounds. Rather, that it will fall, and look weak when we measure it in dollars. We still think that the global economy at the end of 2016 will be producing more goods and services than it did at the beginning: it's just that the value of our measuring stick, the US dollar, has changed as it becomes stronger.

Just listen to people who move goods around the globe like Nils Smedegaard Andersen, CEO at A.P. Moeller-Maersk. His company, owner of the world's biggest shipping line, is a bellwether for global trade, handling about 15 percent of all consumer goods transported by sea.

"We believe that global growth is slowing down," Nils said in a recent phone interview. "Trade is currently significantly weaker than it normally would be under the growth forecasts we see."

The IMF on Oct. 6 lowered its 2015 global gross domestic product forecast to 3.1 percent from 3.3 percent previously, citing a slowdown in emerging markets driven by weak commodity prices. The IMF also cut its 2016 forecast to 3.6 percent from 3.8 percent. But even the revised forecasts may be too optimistic, according to many global economists, including ourselves.

Global GDP forecast for 2015 (bar chart) (diamnonds)



Source: Goldman Sachs Global Investment Research

A LOOK AT THE WORLD CONTINUED ON P8

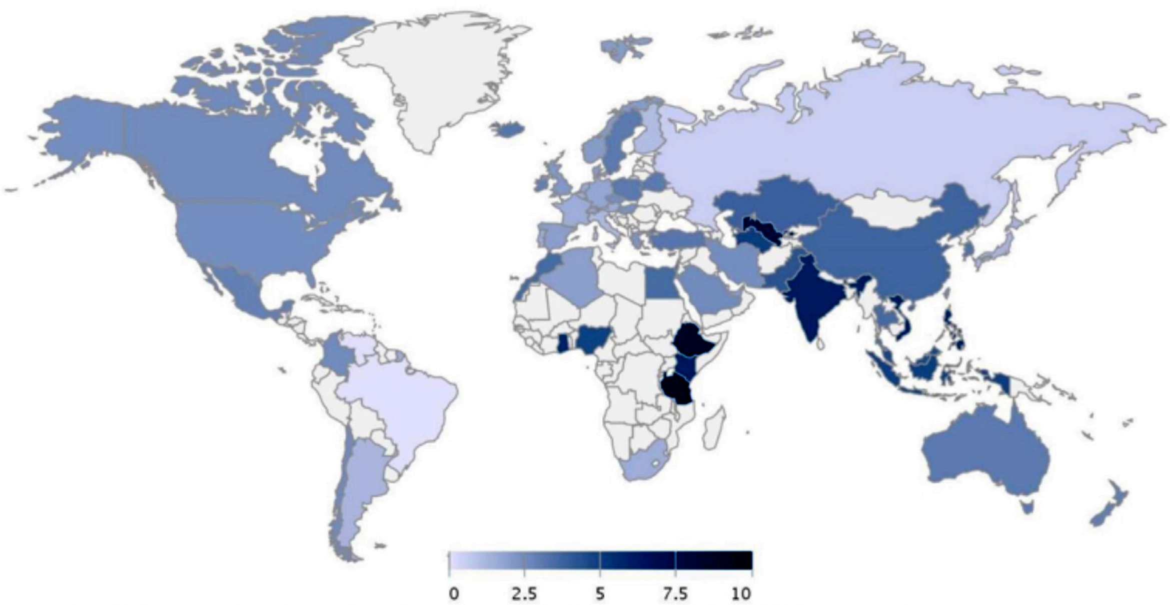
A LOOK AT THE WORLD CONTINUED

The Organization for Economic Cooperation and Development in December lowered its forecasts for the global economy for a second time in three months. In their opinion, GDP will grow 2.9 percent in 2015 and 3.3 percent in 2016, down from the 3 percent and 3.6 percent the group predicted as recently as September.

Maersk's container line in November reported a 61 percent slump in third-quarter profit as demand for ships to transport goods across the world hardly grew year over year. The low growth rates are proving particularly painful for an industry that's already struggling with excess capacity. Ships not moving, or moving half full do not make money.

Trade from Asia to Europe has so far suffered most as a weaker euro makes it tougher for exporters like China to stay competitive. Still, there are no signs yet that the global economy is heading for a slump similar to one that followed the financial crisis of 2008, in most experts' opinion.

Global Outlook for Gross Domestic Product Growth rates, 2015-2025



Note: Projections are based on trend growth estimates, which - for the period 2016-2020 â€" are adjusted for remaining output gaps.
Color ramp is based on GDP growth rates in 2016.
Source: The Conference Board Global Economic Outlook 2016.

CONCLUSIONS AND THOUGHTS

Economic forecasting is a tough game, especially in far flung regions around the globe. One thing that has been learned from the financial crisis and Great Recession is that even those equipped with the most sophisticated models get it wrong, sometimes spectacularly wrong.

So it is with both humility and trepidation that we will try to make predictions for what is going to happen in 2016 with world GDP. In all honesty, the future is murky and anybody who says otherwise is being less than honest. We are talking about economies from the far corners of the globe. We have political risk, currency risk, terrorism risk and probably a million risks we are overlooking.

CONCLUSION CONTINUED ON P9

CONCLUSEIONS AND THOUGHTS CONTINUED

So, with that caveat, here's what we think might happen. At some point, a recovery built on booming asset prices, weak growth in earnings and rising personal debt is going to lead to another financial crisis - but not in the next 12 months. Cheap money is a bad drug. Always has been, always will. But the immediate "high" feels great and shouldn't be overlooked. Cheap oil and commodity prices only fuels the good times more.

The big story of the past month has been the collapse in oil prices, which has taken the price of crude back to levels last seen in 2004. This has two beneficial effects for the global economy. It provides additional spending power for households and businesses that consume energy. It also holds down inflation.

There will always be a bit of a delay between oil prices falling and spending going up, in part because people want to be sure that the lower costs are going to stick around. It is, however, now 16 months since crude began its decline from its August 2014 peak of $115 a barrel, and there is a good chance it will fall a bit further from its current level in the mid-$30 a barrel range. Additionally, with no sign that the oil cartel, OPEC, has the political will to agree production curbs, it's quite possible that prices could fall below $30 a barrel in the early months of 2016. Iran coming on on-line is only going to add glut, to an already highly inventoried asset, oil. As of today, January 12, oil is getting close to $30 a barrell.

In our opinion, cheap oil will keep inflation lower than any of the world's major central banks are anticipating or wanting. Policymakers at the US Federal Reserve, the Bank of England and the European Central Bank (ECB) insist they "look through" rises and falls in oil and other commodity prices and make their interest rate judgments on the basis of what is happening to core inflation, which excludes energy and food costs.

It's harder to raise interest rates if, for whatever reason, inflation continues to undershoot official forecasts. More importantly, there is evidence that a fall in inflation caused by cheaper oil has an effect on wage bargaining. When, in the pre-crisis years, UK inflation regularly hit the government's 2% target, employers used to offer pay awards of 4%. Now that inflation is zero they see no reason to offer more than 2%.

Central banks are looking for signs of wage inflation picking up as a result of years of steady growth and falling unemployment. If wage inflation does not go up, there is less of a reason to raise the cost of borrowing.

CONCLUSION CONTINUED ON P10

CONCLUSEIONS AND THOUGHTS CONTINUED

So, prediction #1, for next year is that both inflation and interest rates will stay lower for longer than currently anticipated. Domestically, the Fed raised interest rates for the first time in December 2015, but will be extremely cautious about its next move. In a perfect world I think the U.S. Fed would like the excuse for 2 more rates increases in 2016. Inexpensive money will boost both borrowing and – for a time –global growth will continue.

The theme of 2016 will be China, where the question is not whether the pace of growth will slacken, but by how much. Expert opinion differs about the state of the world's second biggest economy. Some analysts say Beijing has everything under control, others that the country is already having a hard landing from years of overinvestment in unproductive manufacturing plant and speculative real estate. In all reality, who knows?

Predication #2, It's hard to know exactly what is happening in China, a big country with a reputation for unreliable economic statistics. Official data says the economy is growing by 7% a year, yet data for electricity consumption and rail freight suggest the actual figure is lower. China's PMI, Purchasing Managers Index has declined for 10 months in a row. We think things are rougher there than what's being reported.

The official interest rates are zero in the major developed countries of the west, in China they are still above 4%. This gives the People's Bank of China room to cut the cost of borrowing if it wants to stimulate growth, a tool it will almost certainly use if the government thinks the economy is slowing too rapidly. The exchange rate can also be cut to make Chinese exports cheaper, and the country also has the option of raising public spending. In our opinion, China will slow in 2016 but policy easing will prevent a collapse. There's too much to lose if they don't.

Predication #3, over the past six years, the Eurozone has shown an unerring ability to snatch defeat from the jaws of victory. Every time the crisis has appeared to be over, something nasty has happened. In 2016, that "something" could be Greece, caught in a debt and austerity trap, it could be rudderless Spain or stagnant France. We believe they will move forward albeit at a slow and somewhat painful pace.

There are a couple of reasons why the Eurozone might stumble through to 2017 before there is fresh trouble. The first is that it will benefit from the delay in tightening policy in the US and the UK, and from pro-growth measures in China. The second is that the ECB will keep using quantitative easing (QE) in the hope that an increase in the supply of money will get the bank's lending. The ECB is also keen to drive down the value of the euro to boost exports, although this may prove more difficult if the Fed raises interest rates more slowly than the markets currently expect. There is a good chance the dollar will fall rather than rise against the euro.

Prediction #4, to us it seems that it will be quite important for Japan to lay the groundwork for solutions to solve its economic challenges over the medium and long term in 2016. Since the end of 2012, when Abeenomics (Shinzō Abe is the Prime Minister of Japan) was launched, the Japanese economy has made a remarkable recovery that has exceeded general expectations. This was brought about by the government's message to the public that it had made a drastic change in its economic policy and had increased public works spending. The announcement effect resulted in a weaker yen and higher stock prices. The rising stock prices help to encourage consumer spending through the "wealth effect," and the depreciation of the yen helped to increase revenues and profits for export-oriented companies. We feel the Japanese are "on it" and will continue to foster slow and steady economic growth in spite many hurdles in their region of the world.

PORTFOLLIO STRATEGY CONTINUED ON P10

CONCLUSEIONS AND THOUGHTS CONTINUED

But the Japanese "fixes" are merely temporary solutions to encourage growth in the economy. It is not possible for the government to keep sending out a message with a powerful announcement effect and the effects of the weaker yen, higher stock prices and increased public investment will not last long, being seen only during the period in which they occur. It appears Japan is on somewhat of a roll so I would consider the momentum to continue.

In our opinion, one the biggest, and overlooked risks, to the global economy comes from the emerging world, especially those parts of it affected by the crash in the cost of commodities. As examples, Brazil is a country to watch out for. It is the biggest economy in Latin America and in serious trouble. The economy is contracting at its fastest rate since the 1930s, inflation is above 10%, the currency has collapsed and the finance minister has just resigned. A visit from the International Monetary Fund may be unavoidable. This will have ripple effects through Central and South America.

So, here is my final prediction: there will be no explosion in 2016, but a fuse will be lit and we should all be careful .This is a case of history threatening to repeat itself, because the buildup to the 2008 crisis began on the periphery of the global economy. 2016 Should be interesting on many fronts and it's easy to say it will be like 2015. We believe 2016 will be slightly better than 2015 as inflation pressures around the globe remain quiet, interest rates stay under presure, full employment continues and oil stays historically low. In additions, while governments around the world look calm cool and collected, we believe that beneath the surface they are like the proverbial duck and are paddling furiously to aid their sluggish economies. I'm more worried about 2017 and the ensuing hangover from everything in the previous sentence.

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DISCLOSURE CONTINUED

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