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Low inflation and consistent economic growth could contribute to an equities market advance of 7 percent or more in 2006.

Jim Huntzinger, BOKF's chief investment officer, acknowledges that the Federal Reserve will likely continue to raise rates through the first quarter of the New Year, which could dampen market enthusiasm initially.

The possibility also remains that yields for short- and intermediate-term bonds could briefly eclipse yields for long-term bonds. The "inverted yield curve" has historically been an indicator of impending recession, although Huntzinger says that may not be the case in 2006.

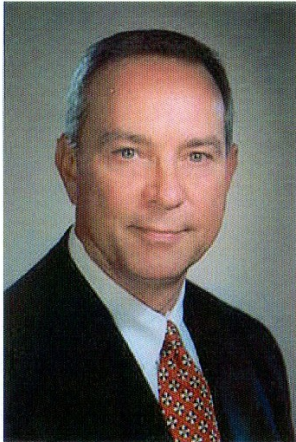
"I think the prospects are good in 2006," he said. "We're modest about our expectations for the equities market next year, about 7 percent for the whole year for the S&P 500, but we may be light on that number."

Huntzinger and his staff oversee \$15 billion in investments for the company and clients at its six banks.

In early 2006, the actions of the Federal Reserve's Open Market Committee will continue to impact the market, he said. As 2005 draws to a close, the Fed has continued to raise key rates to reign in inflation, which was 2.1 percent through November as measured by the Consumer Price Index (excluding energy and food costs).

Huntzinger said the U.S. economy is ending 2005 in remarkably good shape, considering oil is more than \$60 a barrel, the Fed has continued to raise rates and two major hurricanes hit the United States, including Katrina that devastated the Gulf Coast.

Although the Fed is expected to continue raising rates through the end of the first quarter to hold inflation in check, Huntzinger said consistent economic growth should continue in the range of 3 to 3.5 percent in 2006 compared with about 4 percent currently.



Jim Huntzinger: The inflation outlook is a positive that could contribute to solid equities performance in the New Year.

With inflation tamed and the Fed likely easing up on its tight monetary policy early in the New Year, optimism is expected to grow in the equities market as investors look to move into instruments with potentially higher returns.

"Once we get the Fed out of the way, probably at the end of the first quarter, the equity market can do better," he said.

In addition to the positive influence of lower inflation, the U.S. equities market has a bit of catching up to do with international markets that outperformed it in 2005.

An optimistic outlook for the economy and the market is tempered by the possibility that rates for short- and intermediate fixed-income securities could momentarily outpace long-term rates.

Rates for long-term issues are typically higher because investors look for a premium for the added risk of having their money tied up for longer periods. Fed tightening is raising short-term rates while investors apparently have fewer inflationary fears in the long-term, Huntzinger said.

The flatter yield curve is influenced by U.S. trading partners, who are flush with dollars. Their U.S. investments are usually in longer maturities, keeping intermediate and longer rates lower than they would otherwise be.

In summary Huntzinger concluded: "The combination of lower inflation expectations, stable energy prices (though at higher levels), and the conclusion of the Fed's tightening cycle will lead to a positive environment for U.S. equities in 2006."

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