

# Economic Forecasts Suggest Business Opportunities Ahead – But Persistent Risks in 2017 and Beyond Require Vigilance

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This week the Dow Jones Industrial Average nearly topped a record 20,000 and the NASDAQ hit all-time highs. Meanwhile, the US **Economic Confidence** index is surging<sup>1</sup> along with the **Consumer Confidence** index which is at a 15 year high<sup>2</sup> and the **US Small Business Optimism** index increased more in December than it has in any month since 1980.<sup>3</sup> These leading indicators, together with recent positive economic for both the US and in certain global markets, suggest opportunities for the greater investing community. It also portends an increase in mergers and acquisition activity as reported by Ernst & Young in their recently published **M&A Outlook** report.<sup>4</sup> However, with these opportunities come persistent risks that will require vigilant attention from corporate, institutional & individual investors as well as M&A professionals alike.

An expected tightening of the labor market this year, particularly for experienced personnel, demands extra scrutiny of prospects. Political risk and the risk of terrorism remain as high as in recent memory - with government regulatory uncertainty and political instability becoming major factors in the US and internationally. Cyber intrusions are legion and every organization must redouble efforts – both in prevention as well as intrusion testing and response planning. Finally, frauds – investment frauds, business

<sup>1</sup> <http://www.gallup.com/poll/125735/economic-confidence-index.aspx>

<sup>2</sup> <https://www.conference-board.org/data/consumerconfidence.cfm>

<sup>3</sup> <http://www.nfib.com/surveys/small-business-economic-trends>

<sup>4</sup> <http://www.ey.com/gl/en/services/transactions/ey-capital-confidence-barometer-merger-and-acquisition-outlook>

## OVERVIEW

US GDP growth to increase significantly, hand in hand with investment activity

Real Capital and Business Investment spending to jump, increasing M&A activity and driving growth

Modest increases in interest rates & inflation will be net positive for the economy

Regulatory rollbacks, tax reforms and infrastructure spending to spur further growth, investments and M&A

Tightening of the labor market will require strong vetting of key executives

Growth in certain global markets and China requires prudent due diligence in cross border deals

Trade protectionism not likely to materialize in a significant way

Terrorism & cyber threats will continue as significant risks requiring vigilance

frauds and embezzlement – as well as the risk of Foreign Corrupt Practices Act (FCPA) violations, will continue to be a thorn in the side of all enterprises – domestic and international. Fraudsters of all stripes operate not only in down economies, but crop up like invasive weeds to take advantage in growth economies and new markets.

The **US Gross Domestic Product**, Kiplinger projects GDP growth to increase from 1.6% in 2016 to 3% by 2018.<sup>5</sup> Forbes is also suggesting a “mild rebound” for 2017 with GDP growth topping 3%.<sup>6</sup> Whereas Deutsche Bank is forecasting GDP Growth to more than double by 2018 to 3.6%<sup>7</sup> - the most optimistic assessment we have seen thus far. Likewise, **Real Capital Spending** will see a jump from a negative 0.7% in 2016 to 2.3% in 2017, according to The Conference Board’s US forecast.<sup>8</sup> Morgan Stanley echoes this sentiment, projecting **business investment** will grow by 2.8% in 2017, after anemic annual growth of less than one percent in 2015 and 2016, respectively.<sup>9</sup> Kiplinger goes further, projecting business spending to increase as much as 4% in 2017.<sup>10</sup> Such economic growth and an increase in corporate investments and spending in the US will naturally include higher volumes of business transactions, venture capital and private equity activity along with M&A deals from domestic and international sources.

These and other positive projections for the US bake-in assumptions that the incoming Trump Administration will affect individual and corporate tax reforms as well as provide some fiscal stimulus from proposed infrastructure spending – notwithstanding the President-elect’s campaign rhetoric over trade issues with Mexico and China – much of which will be felt after 2017. On the latter issue, Morgan Stanley believes that any potential trade protectionism “goes little further than threats” from the Trump Administration.<sup>11</sup>

At [Marquet International](#), we agree with the general optimism and will even go so far as to say that some of these forecasts are understated. As we have

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<sup>5</sup> <http://www.kiplinger.com/article/business/T019-C000-S010-gdp-growth-rate-and-forecast.html>

<sup>6</sup> <http://www.forbes.com/sites/billconerly/2016/09/16/u-s-economic-forecast-2017-2018-mild-rebound/#5457027423b6>

<sup>7</sup> <http://www.cnbc.com/2017/01/09/donald-trump-plans-will-double-gdp-growth-by-2018-deutsche-bank-says.html>

<sup>8</sup> <https://www.conference-board.org/data/usforecast.cfm>

<sup>9</sup> <http://www.morganstanley.com/ideas/us-economic-stock-market-fed-policy-outlook-2017>

<sup>10</sup> <http://www.kiplinger.com/article/business/T019-C000-S010-business-spending-forecast.html>

<sup>11</sup> <http://www.morganstanley.com/ideas/us-economic-stock-market-fed-policy-outlook-2017>

consistently counseled our clients, critical due diligence in corporate financing, private equity and M&A is crucial, particularly in cross border transactions. Some of the future growth may include renewed interest in “old industry” sectors and domestic manufacturing, with the President-elect’s vow to “bring back jobs” and as is evidenced by some companies already announcing reinvestments and additional hiring in the US. That also means that an examination of the human factor domestically will be important. Likewise, companies seeking to do business with overseas entities need to be particularly careful – not only as to the stability of the host country, but as to who they are, their reputation and track record and the potential for FCPA risk, fraud and political risk.

Goldman Sachs projects “modest” upward pressure on interest rates with several **Fed Funds rate** increases during the year.<sup>12</sup> Kiplinger sees an overall inflation uptick from about 2% at the end of 2016 to about 2.5% by the end of 2017 – primarily due to energy price increases – while **Core Inflation** (excepting food and energy) will see only a slight increase, according to Kiplinger.<sup>13</sup> Morgan Stanley suggests similar Fed Funds rate increases to as much as 2% in 2018.<sup>14</sup> Most economists believe that low inflation rates such as these are more beneficial than detrimental to the overall economy, helping GDP growth. We expect that the modest interest rate increases in the economy will not be a significant drag on housing, construction and other industries and that they may actually bolster the financial sector, providing additional investment funding streams. According to Peter Pavlina, Managing Principal of [Hamersley Partners](#), an investment marketing firm in Boston, the incoming Administration’s signaled shift to an “emphasis on fiscal stimulus, is a pro-growth formula.”

The **Labor Market** is expected to tighten, with unemployment dipping to 4.5% in 2017, according to Kiplinger<sup>15</sup> and the Bureau of Labor Statistics suggests the greatest employment growth will be in healthcare with continued losses in the manufacturing sector.<sup>16</sup> Our own research at [Marquet International](#) into **resume fraud**, based upon examining years of executive screening cases, suggests that it is crucial to properly vet new hires at all levels of employment. This is particularly true

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<sup>12</sup> <http://www.goldmansachs.com/our-thinking/pages/outlook-2017/index.html?videoid=147308>

<sup>13</sup> <http://www.kiplinger.com/article/business/T019-C000-S010-inflation-rate-forecast.html>

<sup>14</sup> <http://www.morganstanley.com/ideas/us-economic-stock-market-fed-policy-outlook-2017>

<sup>15</sup> <http://www.kiplinger.com/article/business/T019-C000-S010-unemployment-rate-forecast.html>

<sup>16</sup> [https://www.bls.gov/emp/ep\\_table\\_104.htm](https://www.bls.gov/emp/ep_table_104.htm)

for key hires and those employees with fiduciary responsibilities. Our research has also found that higher level employees and those in a bookkeeping and finance capacities, pose a greater threat of potential fraud.<sup>17</sup> Hence, the most key personnel – certainly C-level executives, and especially CFOs, along with corporate directors, require the highest level of scrutiny. Our mantra has always been that fraud is endemic in every organization because “there is always someone who is up to no-good.” Nevertheless, many internal frauds (and indeed a host of other employment issues) can be minimized through the careful and vigilant vetting of personnel. Likewise in corporate finance, private equity and M&A transactions, a detailed vetting of senior management teams is always warranted in order to maximize success in the investment. In the course of my 33+ years in the risk mitigation industry, I have seen numerous deals scrapped or significantly altered due to executives with questionable backgrounds that we uncovered.

It is unclear by how much and how quickly the **Regulatory State**, which has dramatically expanded in the US over the past couple of decades, will get rolled back and/or streamlined by the incoming Trump Administration. There is also much debate over what the actual effects would be from **rollbacks of regulations** administered under such agencies as Environmental Protection Agency, Health & Human Services, Internal Revenue Service, and the Securities & Exchange Commission – the agencies most likely to be targeted for reform by the new Administration. A study published by the Mercatus Center at George Mason University in April 2016, found that US federal regulations created an average 0.8% reduction in GDP growth.<sup>18</sup> The Heritage Foundation’s “Red Tape Rising 2016” report cites the additional regulations enacted by the Obama Administration between 2009 and 2016 (229 major regulations), cost US businesses \$108 billion annually (the agencies own estimates) but that this cost is greatly understated.<sup>19</sup> We believe that sensible regulatory reform is both necessary and likely to occur in the next four years and, on balance, will have a positive effect on the overall US economy and on the investment sector in particular.

Certain **international markets**, such as India, Vietnam, Malaysia and the Philippines are expected to see GDP growth rates in excess of 6 percent in 2017,

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<sup>17</sup> <http://www.marquetinternational.com/pdf/Resume%20Fraud-Top%20Ten%20Lies.pdf>

<sup>18</sup> <https://www.mercatus.org/publication/cumulative-cost-regulations>

<sup>19</sup> <http://www.heritage.org/research/reports/2016/05/red-tape-rising-2016-obama-regs-top-100-billion-annually>

before gradually tapering off, according to The Conference Board's Global Outlook report.<sup>20</sup> While China's economy has been cooling and will continue to do so, it is still expected to be near 4 percent in 2017, according to the report.<sup>21</sup> Certain other economies, such as more developed Australia, Canada and Ireland – and developing countries Poland and Colombia are expected to grow at close to 3 percent in 2017. Still others, such as Argentina, Chile, Mexico, New Zealand, South Korea, Sweden and Thailand are also expected to have reasonably strong economies with greater than 2.5% growth in 2017.<sup>22</sup>

All of these and other markets may present **international investment opportunities** for US and corporate investments and development driven from government entities, corporations and financial institutions based in the G20 countries. Clearly political and FCPA risks are great in any of the developing countries as well as in China. Indeed, Euromoney's most recent Country Risk survey revealed global risk rising.<sup>23</sup> In all instances, based upon our own decades of experience, **rigorous due diligence** is necessary when examining potential investments, management teams, key supplier/vendor and M&A transactions in order to minimize fraud and business dispute risks. Most countries do not have the plethora of public records available in the US. Our international investigative practice therefore often relies most importantly on human intelligence sources.

The risk of **terrorism** continues to grow and metastasize around the world – causing disruptions to economic activity not only in traditional hotspots, but also in the US, Western Europe and other developed markets. Terrorist attacks in the West have become more deadly and shifted from government-related targets to civilians and businesses, according to a recent report by Aon and the Risk Advisory Group.<sup>24</sup> Based upon our own experience and observations at [Marquet International](#), we expect that terrorist acts, large and small, will continue for the foreseeable future around the world, becoming more frequent in the West, before any improvements are seen. Organizations should update and game-out security, contingency and

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<sup>20</sup> <https://www.conference-board.org/data/globaloutlook>

<sup>21</sup> Ibid.

<sup>22</sup> Ibid.

<sup>23</sup> <http://www.euromoney.com/Article/3650139/Country-risk-review-2016-Populism-is-risky.html>

<sup>24</sup> <https://news.riskadvisory.net/2016/12/risk-advisory-collaborates-with-aon-on-2016-terrorism-political-violence-map>

emergency plans for their executives, personnel, travel, events, supply chain, logistics & distribution and financial management.

On course, **cyber intrusions** and **hacking** are all over the news these days - the threat is real and must be taken very seriously. Georgia Tech's Institute for Information Security & Privacy recently released its "2017 Emerging Cyber Threats, Trends & Technologies Report," which indicates that the problem is widespread and growing – since virtually every organization conducts some business online.<sup>25</sup> In fact, spending on cybersecurity is predicted to top \$1 trillion over the next five-years, according to a recent report.<sup>26</sup> Implementing state of the art cybersecurity systems combined with continuous testing and updating is crucial to the overall security and continuity of virtually every business enterprise.

On balance, both the US and the global markets will see greater growth in 2017 and the near years beyond, bringing increased investments and cross border business activity. Prudence demands that those taking advantage of this growth be vigilant in their due diligence and planning.

### **About the Author & Marquet International**



[Christopher T. Marquet](#) is Founder & CEO of [Marquet International, Ltd.](#), a corporate investigative, due diligence and litigation support firm. Chris is a globally recognized expert in investigations and due diligence as well as a thought leader in such other matters as white collar fraud and employee misconduct. Marquet International is routinely engaged by corporations, financial institutions and their counsel to assist with internal investigations, corporate fraud and allegations of employee misconduct. The firm is also regularly retained by financial institutions and

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<sup>25</sup> <http://www.iisp.gatech.edu/georgia-tech-releases-2017-outlook-emerging-cyber-threats>

<sup>26</sup> <http://cybersecurityventures.com/cybersecurity-market-report>