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Economic & Market Summary
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Recent US economic data has generally been positive. Leading indicators suggest that GDP growth will likely stay in-line with the post-recession trend of ~2%. Consumers, the economy's growth engine, remain in good shape. Debt levels seem manageable, and real median income has nearly recovered to its 2007 peak. Business investment, particularly equipment, is rebounding nicely after being weak for most of 2016. Fiscal policy reforms are potential catalysts for growth acceleration, but discord in Washington makes determining the odds of passing legislation challenging.

Monetary policy is in the process of normalizing via the recent interest rate increases and the upcoming Federal Reserve balance sheet unwinding. Complicating this process is the puzzling combination of low unemployment and low inflation. Possible structural explanations include large numbers of retiring workers, declining productivity, globalization, and technological disruption. More traditional signals point to higher inflation: These include the declining dollar, tight labor market, rising commodity prices, and accelerating economic growth. With the potential for yields to move higher, our preference is investment in high quality, shorter-term bonds. Some market commentators are worried that the Fed will choke off vital liquidity by raising rates too quickly. While Chairwoman Janet Yellen's recent actions have been restrictive, her dovish history suggests that this concern is overstated. Whether or not Yellen will return after her term expires in February and the vacancies on the Federal Board of Governors create additional uncertainty.

Abroad, the picture is encouraging as global growth synchronizes. The world economy is expected to expand 3.5% in 2017 and 3.7% in 2018. This is a meaningful acceleration compared to the average growth rate of 3.2% over the last five years. Europe has been instrumental to the global upturn. Because Europe is becoming strong enough to function without emergency monetary policy, the European Central Bank may wind down its bond-purchasing program in the near future. Emerging market economies are also recovering, aided by a weakening US dollar, which reduces the burden of dollar denominated debt. With about 30% of S&P 500 companies' revenue originating overseas, a positive international economic backdrop echoes favorably for US corporate earnings.

The US equity market's performance has been strong with the S&P 500 reaching new highs while shrugging off geopolitical bellicosity and natural disasters. With a price-to-earnings ratio of 19.7x 2017 earnings, the valuation remains elevated but not extreme. Low bond yields and strong earnings growth lend support to an above-average valuation level. Beneath the surface, valuations are becoming bifurcated. Certain emergent technology companies have soared to new highs while others, namely energy, financials, and consumer staples, have fallen out of favor. Despite the market's overall elevated valuation, we remain constructive on select stocks that appear to offer an attractive margin of safety.

Mark J. Sprtel – Analyst

To request our SEC Form ADV Part II, please contact Michael L. Wise, Chief Compliance Officer, at the address above.