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Economic & Market Summary
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Shorthand and acronyms are popular in the media, but are not usually endearing terms when related to financial markets. Brexit, Grexit, PIIGS, CDO, MBS, and TARP, to name a few, all provoke despair but have a limited impact on long-term economic growth. In the short-term, these events are expressed in asset price adjustments representing fundamental human emotions: fear and greed. As was widely reported, the U.K. voted to leave the European Union. The larger issue we see for the U.K. leaving the EU is not renegotiation of trade deals or other agreements, but rather the long-term viability of the EU and the euro currency. In part, the decision to leave the EU suggests that the additional layer of bureaucracy was too costly and represents growing distrust of large centralized decision-making. As the 5th largest economy in the world on its own, the long-term impact to the U.K.'s economic growth prospects could turn out to be positive but unquestionably creates short-term volatility in financial markets. These developments bear continued observation in the event longer-term issues are brought to the surface.

Central banks around the globe continue to employ extraordinarily aggressive monetary policies in an attempt to offset restrictive and low growth fiscal policies. However, negative interest rates, or in practical terms paying someone to hold your cash, do not appear to be stimulating growth. With slow economic growth and a difficult regulatory environment, large and well-capitalized businesses have reduced capital investment while taking advantage of generationally low interest rates to fund equity share repurchases. The unintended effect of current monetary policy may ultimately be a misallocation of capital because while many companies can borrow for less than their dividend yield, capital investment is a critical foundation for growth.

U.S. GDP growth was 1.1% in the first quarter and 2% over the last year, very consistent with the current expansion over the past 7 years. The components were also fairly consistent with consumer spending and housing investment driving the growth, while business investment remains tepid and inventories declined. Conditions remain favorable for growth with increasing wages, solid housing fundamentals, manageable consumer debt levels, and growing capital investment needs. A record number of job openings potentially highlights a skill mismatch, but also speaks to additional strength in the underlying U.S. economy. We expect modest growth in 2016 and see no evidence of an imminent recession.

On balance we continue to emphasize larger and higher-quality equity holdings. We continue to expect heightened volatility creating attractive opportunities for investors with a long-term horizon. Current year earnings are expected to grow over 2015 as commodities and the dollar have stabilized while the economy continues to expand. Valuations on stocks are near historical averages. While we acknowledge P/E multiples could move higher in the face of lower bond yields, the margin of safety has been reduced due to strong returns over the past 5 years. The S&P 500 currently offers a 2% yield with dividends expected to grow over time compared to a fixed 1.4% return on the 10-year U.S Treasury bond, which speaks directly to where relative value exists today.

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