Schaper, Benz & Wise
INVESTMENT COUNSEL
Trusted Advisor for Generations

18 Jewelers Park Dr., Suite 200 | P.O. Box 628
Neenah, WI 54957-0628 | 920.727.1137

Economic & Market Summary
January 2017

U.S. economic growth accelerated slightly in 2016. Annualized third quarter GDP growth of 3.5% was the fastest in two years and exceeded the post-2009 recovery average of 2.1%. Consumer spending continues to lead growth, fueled in large part by the downward trajectory in unemployment. At 4.6%, the unemployment rate is almost back to the May 2007 pre-crisis low of 4.4%, allowing wage growth to pick up. We also highlight household debt payments as a percentage of disposable income; at about 10%, it marks a 36-year low. With the consumer representing about two-thirds of the U.S. economy, 2016 exits on solid footing.

We believe that 2.5% - 3.0% U.S. GDP growth is achievable in 2017 on continued consumer strength and improving business investment despite potential trade barriers and a strong dollar. The incoming administration seeks to significantly scale back certain regulations, lower corporate and individual tax rates, and spend heavily on infrastructure improvements. We could see regulatory relief across the banking, healthcare, and energy industries. U.S. companies face the highest marginal tax rates in the developed world, and there seems to be bipartisan agreement in Washington to address this issue. Such reform could also incentivize repatriation of offshore cash, thereby providing a boost to dividends, share repurchases, and capital investments. Deregulation and tax reform should spur business investment, which has been weak throughout the recovery. One caveat is the speed and fluidity of implementing these reforms since many of the proposals must navigate through Congress. The risk of protectionism is heightened under a Trump presidency: Enactment of trade barriers would blunt the effects of expansionary policies. We also see the strong U.S. dollar as a potential headwind, pressuring both exports and multinational company earnings.

A stronger economy has given the Federal Reserve the confidence it needed to raise rates this past December. The Fed is now set to increase rates multiple times this year if economic data remain supportive. Inflation expectations have risen meaningfully post-election. The 10 year U.S. Treasury yield rose off its historic low of 1.36% last summer to about 2.5%, slightly above where it was at the end of 2015. The downward trend in long-term interest rates may be at an inflection point.

U.S. equity markets have rallied to new highs since the election, pushing valuations to the upper end of historical ranges. Equity fund flows turned positive in the final two months of the year after being negative for most of 2016. These events suggest that optimism, a sentiment that’s been absent from the bull market, is returning. We are constructive on the market in 2017 although we expect heightened volatility, attributable to significant domestic policy changes and ever-present geopolitical risks. As long term investors, we typically use volatility as an opportunity to increase ownership in fundamentally sound companies.

Mark J. Sprtel – Analyst

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