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Economic & Market Summary
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Concerns about the global economy linger. Populism is on the rise. Protectionism has become a threat. In China, a large debt load, lofty real estate prices, and slowing growth are disconcerting. US annualized GDP growth seems stuck at around 2%. A sizeable uptick in business confidence has thus far not delivered a proportionate increase in investment. Despite these concerns, there is cause for optimism. The European Commission's economic sentiment index is at its highest level since 2011. The Bank of Japan raised its growth forecast from 1% to 1.4%. Key emerging markets appear to be improving, and there are indications that global trade is rebounding. The US job market is strong. Job openings are abundant, wages are rising, and the unemployment rate is 4.7%, below the Fed's full employment estimate. Also, the housing market has room to run owing to historically low ownership rates. The global picture is not perfect, but there are signs it is getting better.

While the recovery in oil prices largely accounts for the acceleration in headline inflation, core inflation (which excludes food and energy) is nearing the Federal Reserve's 2% target. This, along with a strong job market and stable international markets, gave the Fed confidence to raise interest rates for the second time in three months. Two more increases are expected in 2017. Barring a shock to the US economy or turbulence abroad, the era of ultra-accommodative monetary policy is likely ending. This signals that the economy is healthy enough to withstand a return to normalized interest rates.

Bond yields have stabilized after rising late last year. Bond fund flows have accelerated implying that the increase in yields has attracted investment. Domestic equity fund flows have turned positive after years of negative flows. This suggests that post-election optimism is intact. To wit, US equity markets recently hit several new highs. Current 2017 earnings estimates call for robust year-over-year growth of 22% in anticipation that pro-growth fiscal policies (namely tax reform, deregulation, and infrastructure spending) will boost corporate earnings. Additionally, estimates reflect a stabilizing US dollar and a rebound in energy company earnings. With healthcare legislation on hold for now, tax policy is likely up next followed by deregulation and infrastructure spending. However, if the healthcare experience is any guide, a fractured Congress and the Trump Administration's sometimes raucous approach to governance suggest that the road from proposal to implementation may be lengthier and bumpier than the market anticipates. In this light, the market's post-election rally seems somewhat dubious. Combined with rising interest rates, a modestly rich valuation of 18x earnings, and potentially damaging trade legislation, an unexpected growth policy postponement could cause the market to retreat. It is worth noting that corrections are a normal part of a bull market, even an aging one. As always, our focus continues to be on the long-term business fundamentals of our companies, which in most cases are constructive. Despite having some short-term market concerns, we are still finding opportunities to put cash to work in select securities.

Mark J. Sprtel – Analyst

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