Q2 Economic and Financial Markets Commentary

For the first time since the global financial crisis, evidence of a synchronized global economic recovery is at hand. While one shouldn't overstate the importance of such synchronization, it is notable that for the first time in many years, no major economy appears particularly susceptible to recession. At the same time there has been some recent dissipation in economic enthusiasm among investors. Global synchronized growth, if sustained, is likely to provide a constructive backdrop for company fundamentals and, ultimately, for investors.

GDP growth in other major economic economies increasingly appears to be in sync with the steady recovery in the United States. The eurozone economy has been in expansion since late 2013, and its growth has become more robust as it has broadened to more countries on the back of strengthening domestic consumption and investment. China's growth re-accelerated in 2016, driven largely by fiscal and credit stimulus; and the Japanese economy has expanded for five consecutive quarters for the first time since 2001, while its unemployment rate has dropped to a 22-year low.

Despite continued growth, measures of inflation have softened across the board. A decline in headline measures was to be expected with the year-over-year increase in energy prices peaking in February, but more measures have fallen noticeably as well. For example, May core CPI was 1.7%, versus 2.3% in January. A sharp decline in wireless service plans subtracted over 30 basis points from core CPI, but the weakening was broader and extended to health care, transportation, and apparel industries.

As was widely expected, the Federal Open Market Committee (FOMC) hiked the fed funds rate to a target rate of 1 – 1.25% at its June meeting and announced the framework that it will use to shrink the size of its balance sheet. It appears the groundwork has been laid for a gradual paring of its Treasury and agency security holdings and for one more rate hike by year-end. Of particular note to investors was that Chair Janet Yellen has been clear that the FOMC is more concerned about how markets digest its moves than by the possibility its plans could be derailed by incoming data.

As for the quarter and full year ahead, prospects for tax reform, an infrastructure package, and of course health care reform will dominate the attention of investors as they watch the tug-of-war relative to expected US policy changes play out daily in the media. While we believe the outcomes of these policy issues can be material to the economy and financial markets going forward, we would remind investors that with oil prices down and US housing continuing to support the recovery of the US middle class, the US economy is in better shape than commonly appreciated. We feel the global economic environment is becoming more supportive and that that several more years of growth in the United States, independent of policy change, are likely in store.

Naturally, we expect the financial markets to present occasional inflection points for long-term investors and short-term traders alike to consider, we will view these occurrences in light of the risk/reward objectives in our clients' portfolios and respond accordingly.

Enjoy your summer.

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