



U.S Economic Developments and International Geo-political Events

On balance, the U.S. economy appears to be in reasonably good shape. In recent weeks, data is showing a continuation of modest gains in industrial output, building permits and leading economic indicators, suggesting business activity will gradually strengthen over the next few months before picking up somewhat after midyear on the expectation that business-friendly legislation will start to pass in Congress. One area of economic weakness is retail auto sales, having eased from peak levels. However, consumer confidence has surged forward, reflecting optimism about long-term economic growth with the labor market near full employment and wages rising. The Consumer Price Index, a measure of prices paid by consumers for retail goods and other items, has also recently dropped for the first time since February 2016, implying that the economy is currently without worrisome inflationary pressures.

With most sectors of economic activity expanding, the Federal Reserve is likely to resume raising interest rates by midyear and then stay the course on steady monetary tightening. However, any prolonged weakness in economic measures would likely slow the pace of rate increases.

The international geo-political situation appears to be getting messier: the U.S. recently having taken an active role in the Syrian crisis and the possibility of further actions across the Middle East, saber rattling and military threats coming out of North Korea, uncertainty with our trade relations with China and relations with Russia deteriorating. The higher military profile recently assumed by the U.S could very well keep international events on the front page for some time as global tensions intensify.

Earnings season is in high gear with most corporate results doing well compared to expectations. However, companies that have missed forecasts have been “taken to the woodshed,” suggesting that solid earnings performance is necessary to sustain current equity market levels. If the earnings outlook remains positive and the tenuous global situation is contained, the bull market is likely to continue.

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