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# Q2 2017 – Market Overview Newsletter

## Economic Update

The United States is now 96 months and counting into an economic expansion following the "great recession" of 2008-2009. This marks the third longest expansion since the civil war, with the longest lasting 120 months beginning in 1991. To paraphrase Janet Yellen, expansions don't die of old age. Despite the length of this current expansion, there is nothing on the horizon that leads us to believe that it couldn't continue for some time. Although U.S. stock valuations are somewhat high relative to the 25 year average, companies continue to do well and earnings remain strong. In addition, unemployment remains below the 50 year average and wages continue to rise.

So far in 2017 the U.S. markets have done well with the S&P 500 ending the first half of the year up 9.3%. Performance in the second quarter was dominated by the largest of the large-cap technology firms, including Apple, Amazon, Facebook and Google. Investors have favored growth stocks to value, which returned 4.4% and 1.5% respectively in the second quarter, although value returned to favor somewhat as the period came to a close. While U.S. stock performance has been respectable, returns in overseas equity markets have been comparably better. Both developed and emerging market international stock indexes outperformed the S&P 500 for the 2nd Quarter and lead global equity markets year-to-date. Economic and market performance in other countries have lagged the U.S. since the end of the "great recession", so a broadening of growth is good.

We expected some volatility around the election and through the administrative transition, however, volatility in markets has been almost non-existent. While the S&P 500 continues to reach all-time highs based on strong corporate earnings, the CBOE Volatility Index (VIX) was down to a more than 23 year low. Despite global headlines, including Brexit and various foreign elections, low volatility hasn't been limited to just the U.S. stock market. This widespread market calm is likely due to the strong macroeconomic outlook across the globe.

Signs of building economic strength are helping the world's central banks move slowly away from the accommodative monetary policies that have helped to sustain growth throughout the current expansion. In the U.S., the Federal Reserve ("The Fed") raised rates by a quarter-point in June, the fourth such hike since December 2015. In Europe, the European Central Bank indicated it's ready to end their current "easy money" period, starting with a wind-down of their quantitative-easing asset purchase program.

It appears investors are paying more attention to market and economic fundamentals rather than political risks or opportunities. That's a healthy sign for the markets—investors seem to have tapered their lofty expectations for President Trump's agenda and are looking more at the strength in corporate earnings for signs of future market opportunities. There are always risks, of course, for investors to be attuned to, including the potential for rising interest rates to constrain borrowing costs for businesses and households. Additionally, companies may face higher labor costs in the form of rising wages, which could put a lid on future earnings growth. There are always exogenous political or event-driven risks that could derail the current rally, but a market that's focused more on fundamentals instead of optimism or other indicators of sentiment usually offers a better environment for investors.

For more market details, see the “Capital Analysts Q2 2017 Market Review” in the commentaries page on our website at www.langdonshaw.com/commentaries. -LS