

ECONOMIC AND INVESTMENT FORECAST

June 2018

As steady as the U.S. economy has been of late, investor focus in 2018 has decidedly turned to geopolitics. The recently completed U.S. and North Korea summit in Singapore was truly historic, even if very little official business was completed by Supreme Leader Kim Jong-Un and President Donald Trump. This notable get-together took place amidst other on-going international dramas, such as contentious trade negotiations with China, unfolding political dramas in Spain and Italy (related to membership in the Eurozone), and an unraveling nuclear deal between Iran and several developed nations. Not surprisingly, global financial markets have exhibited elevated volatility in the wake of these events, leaving investors justifiably on edge as we transition into the summer months.

With the second quarter winding down, most equity markets around the world are showing modest gains for the year, on the back of both strong corporate earnings reports and bullish profit guidance. 78% of companies delivered positive profit surprises in the first quarter, and a similar percentage generated higher revenues than expected by the analyst community. Fundamentals in the broader U.S. economy are strong, with GDP growth expected to accelerate towards a 3% clip as it builds on the seasonally slower first quarter pace. Businesses across most industries are reporting benefits from lower taxes and fewer regulations. Finally, the job market is at its strongest in decades (223,000 jobs were created in May) with an unemployment rate of 3.8%, the lowest reading since Spring of 2000.

Knowing that we are a decade into this economic expansion and bull market in stocks, we are closely monitoring the rise in interest rates orchestrated by Central Banks around the globe. Here in the U.S., the Fed is on course to raise interest rates at least three times this year and again in 2019. If inflation were to build in the economy, which is certainly possible given the tight job market and higher commodity prices, Fed Chair Jerome Powell may raise rates more aggressively, which would pose a major challenge for stocks and the broader economy. With the Dow resting above 25,000, and the S&P 500 and Nasdaq indexes also near all-time highs, markets are priced for near-perfection, and there is little room for error on the part of central bankers as we move into the latter half of the year.