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INVESTMENT SUMMARY

2nd Quarter 2017

With the year halfway complete, the world's largest economies are growing in a synchronized way and looking past the various distracting political controversies. While the U.S. consumer was given much credit for driving the initial years of economic expansion, we are now seeing the industrial sector take the lead. An important measure of U.S. manufacturing activity, the Purchasing Managers' Index (PMI), recently registered a strong reading of 57.9, indicating healthy levels of business investment as company CEOs feel increasingly confident about the prospects for their organizations. Investors have been equally optimistic, with their global buying of equities pushing the S&P 500 up over 9% for the year, and International equities 14% higher year-to-date.

As the business cycle stretches to 95 months in duration, some economists view this economic expansion as getting long in the tooth. Conversely, the cumulative GDP growth since the 2009 recession has measured a lackluster 17%, leading other market observers to suggest the economy has more room to grow. While indicators like these can give conflicting signals, we also know that recessions are typically caused by something specific: a real estate bubble, too much inventory in the economy, or an expensive stock market. Because it is natural for imbalances in asset classes to build up over time, it will consequently be an area of our focus in the months ahead.

Looking forward, legislative progress in Washington, or lack thereof, will have great impact on future economic activity. For example, if rollbacks in business regulations are achieved, we could expect positive economic effects, including U.S. GDP growth accelerating to a 3% run-rate, meaningfully higher than the prior years' average of about 2%. Globally, trade is on course to have its best year since 2010, despite President Trump's "America First" rhetoric which is calling into question existing trade agreements. Strong trade points to the health of economies around the world and the innovation going on at international companies. We continue to see opportunities investing overseas, which combine the prospects of attractive investment returns with the inherent risk-management gains achieved through diversification.