Market Update

June 30, 2017

The second calendar quarter of 2017 continued the counter intuitive developments that occurred during the first calendar quarter.

Economic activity for the first calendar quarter, as measured by GDP data, was anticipated to be just over 1% and it came in at 1.4%, as expected. The initial forecast for the second calendar quarter was for a 3%+ increase in GDP, but most economic forecasters now call for growth of just over 2% for the second quarter. Most commentators attribute the softness to individuals and businesses deferring actions pending the outcome on promised income tax reform.

Deregulation continues to be an important theme for capital markets and news that all the major US banks passed their hypothetical “stress tests” from the Federal Reserve, prompted a late surge in the share prices of these organizations. Separately, the loosening of restrictions on bank dividends and stock buybacks also supported the bank stock rally.

Interest rates on the 10 year U.S. Treasury Note continued its modest decline to 2.3% from 2.4% at the end of March. Typically, an improving economy produces increases in interest rates, not the declines we have witnessed so far this year. Even the Federal Reserve statement that indicated the size and scope of upcoming sales from its security portfolio did not put upward pressure on interest rate levels.

Most equity markets sustained trends begun during the first calendar quarter. International equity markets were up more than domestic U.S. markets for the second quarter in a row. This time developed markets were up 6.4% while emerging markets were up 5.6%, a reversal from the order in the first quarter. Within the U.S. capital markets, the S&P 500 extended its first quarter increase by another 3% and is up 9% for the first half of the year.

Small cap U.S. stocks continued to underperform the S&P 500, up just 1.7% for the quarter. Medium cap stocks continued to do better, up 2.4% for the quarter.

All in all, capital markets reflect a wait-and-see attitude towards tax and regulatory reform. Implicit in this attitude is the expectation that reform will take longer than promised, but will eventually occur. We concur with this assessment and continue to invest client funds to participate in a generally rising market in the future.

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