Mid Year Update

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Mid-Year Update

We certainly hope that everyone is having a great 2017 and looking forward to a relaxing, hopefully not too hot, summer. As for the markets, they have had a good start to this year and we will take this month's Financial Tip to briefly touch on the why, and what the expectations are for the balance of the year. As of this writing in the last week of June, much of what we have been mentioning this year is still trending the same direction. The Dow and S&P500 are both up 9.5%, US Mid Cap is up 8%, US Small Cap is up 5%, US Aggregate Fixed Income is up 1.8%, Developed International is up 14.5%, and finally Emerging Markets are up 18.5%. Thus a traditional balanced portfolio would be up in the 5.5% to 6.5% range.

The performance we have seen thus far in 2017 is a result of steady, albeit relatively slow, domestic economic growth. Whereas global growth has exceeded domestic, and coupled with higher valuations in the US, the international markets have been able to outperform. Fixed income has continued to struggle in this low interest rate environment. Most analysts predict that we may be in a low growth and interest rate position for the foreseeable future. Even though global GDP has almost doubled in the last decade, inflation has remained low as competition and productivity efficiency have kept rates low. An unfortunate byproduct of those two dynamics is that wage growth has stagnated as well, further reducing the ability for rising prices. Soft data, surveys of producers and consumers, have been and continue to be positive. Hard data, actual production and consumption metrics, have been lagging the soft data predictions. Most analysts believe the actual future economic growth will be found somewhere between those data points which would support continued economic and market performance as we have seen the first half of 2017.

There are always differing opinions with any subject. As for our economic and market health, those that are more negative going forward point to investor complacency, lack of wage growth, higher valuations, and historically high developed market debt levels. On the other end of the spectrum analysts that are very bullish going forward point to historically high levels of cash on corporate balance sheets, potential money supply affects from regulatory reform, and tighter housing markets. Obviously geopolitical events cannot be predicted and will have an impact. Given all that we know, the likely direction of markets for the balance of 2017 is in a similar direction as the first half. That is not to say the various indices will double their current performance merely that we do not forecast a trend reversal.

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