April 2017

Quarterly Commentary

Equity markets around the world have continued to rally in 2017. The S&P500 rose just over 5% in the first quarter while global equities have generally increased by more, Japan being a slightly lower exception. Brexit seems to have had little impact so far. Rather than conclude that global investors have already priced in future Trump Administration policies, it may be that there is more confidence about the actual level of economic activity across global economies. However, if market returns correlate with earnings growth this year as we think reasonable, then we've already experienced more than half of 2017's expected return. A pullback after the recent strong market rise would be normal and healthy.

It was just last summer that global sentiment was so bad that roughly one-third of all sovereign debt was yielding negative interest rates. The global bond markets had priced in a very real fear of global recession. Instead Japan, China and Europe have all expanded ahead of expectations and even Japan's 10-year bond now has a positive interest rate. Probably the biggest risk to equities going forward is that the broad consensus view is now for a stronger global economy in 2017, with equity valuations already benefitting from that renewed optimism. An economic disappointment could obviously reverse that sentiment and create a selloff.

The Fed waited all year before raising interest rates in December, and now has just recently raised rates again in March. The Fed's expectation is that the underlying economy may encourage them to raise rates two more times in 2017 and possibly an additional 3 times in 2018. The Fed's underlying assumption is that domestic economic growth will be incrementally stronger going forward.

While the Trump legislative agenda has yet to gain traction, the use of executive orders has begun the pro-market dismantling of Obama-era regulations especially within the financial and energy sectors. We believe that regulatory relief is being priced into affected sectors in real time. However, because of all the skepticism with respect to potential legislative success, we wouldn't be surprised if the overall markets remained in a holding pattern until an actual tax reform bill is presented.

Eventually, it always comes back to earnings and investors should be relatively sanguine on that note as overall corporate earnings are expected to be up significantly (7%-8%) for the year before any policy benefits. One of our more important investment themes is dividend growth, and we see this year lining up very favorably for our company holdings. Management teams will have the financial flexibility to continue to increase dividend returns to shareholders which we feel supports long term appreciation.

This quarter, we are launching our new quarterly appraisal packages which provide the same quarterly information as always, but now also provide a consolidated and historical context as well. The report provides greater transparency on the most important metric – progress towards your long term goals. We hope you'll find our new reports easy to understand and that they will help promote long term thinking with respect to your investments.

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