Cambridge ADVISORS inc.
INVESTMENT MANAGERS

ECONOMIC UPDATE MAY 2017

LORI L. LIFFRING, CFA ♦ MICHAEL L. BRIDGMAN, ChFC ♦ JUSTIN S. ANDERSON, MBA AAMS ♦ KAREN K. BENEFIEL, CMT CPA
GAYLAN C. ABOOD, CHAIRMAN EMERITUS

Stocks had another good month in April. The S&P 500 ended the month near its all-time high. It had a 1.0% gain for the month which brought its year-to-date return to 7.2%. The Russell 2000 index also had a 1.1% gain this month so its year-to-date return was 4.3%. International stocks in the MSCI EAFE index continued their outperformance and returned 2.5% in the month and 10.0% year-to-date. Emerging markets stocks were also strong with a 2.0% return for the month and 13.4% year-to-date return. Yields on the ten-year US Treasury reached a low of 2.18% before bouncing back to 2.28%. Because that was still lower than where yields started the month, the Barclays Aggregate Bond Index gained 0.8% in April and had a year-to-date return of 1.6%.

Stocks continued to rise even as the Republicans' effort to repeal and replace the Affordable Care Act stalled, further delaying the tax reform that the market seems to be pricing into stock valuations. If no progress is made on either, investors may lose patience and we could see stocks retreat.

We have been in an expansion period for 94 months now. Only two expansion periods have been longer – one that started in 1960 and one that started in 1990. Some analysts are warning that the current expansion has lasted longer than the average of 47 months and that we are due for a recession. However, even though this expansion has been long in months, it has not been nearly as strong as prior recoveries. The cumulative GDP growth is less than one third of the growth experienced during the two longer expansions. In fact, only three of the past eleven recoveries saw less growth than what the we've had in the current expansion. This data leads JPMorgan and others to think that although the expansion has been long, it has not been strong and so the expansion is likely to continue.

This appears to be true as initial estimates for GDP growth in first quarter registered at 0.7%. Although that figure is lower than the 1.2% rate that was projected, analysts note that the first quarter is often impacted by weather and the complication of calculating seasonal adjustments. They further note that employment is strong and consumer confidence is high so the slowdown in consumer spending is likely temporary.

Corporate earnings continued to grow during the first quarter. In the fourth quarter they reversed five quarters of negative growth and posted a 4.4% increase. Of the S&P 500 companies that have reported first quarter earnings so far, earnings growth has been 10% over first quarter last year. Revenues are also higher by 4.3%. About 75% of companies have beaten their estimates for earnings and 64% have beaten their estimates for revenues. These results are a significant improvement.

The Federal Reserve has reiterated its plan to continue to raise interest rates gradually in 2017. They recently raised rates in March and are forecasting two more increases this year. This year may be tough for bonds if rates rise fairly rapidly. Strategas Research is projecting the yield on the 10-year Treasury bond to rise to 3.0% by the end of the year. We continue to believe that higher yields will be healthy for income oriented investors when they can derive more income from bonds rather than more volatile sources.

We continue to believe that diversification is prudent in protecting and growing portfolios in times like this when uncertainty is high, bond yields are expected to rise and stocks are trading near all-time highs. We are happy to see that after lagging for several years, international stocks and small cap stocks are performing well which further validates the benefits of diversification. If you have questions about your account, please do not hesitate to contact your advisor.

17330 WRIGHT ST, STE 205 | OMAHA, NE 68130 | P: (402) 697-1166 | F: (402) 697-9271
CAMBRIDGEADVISORS.NET