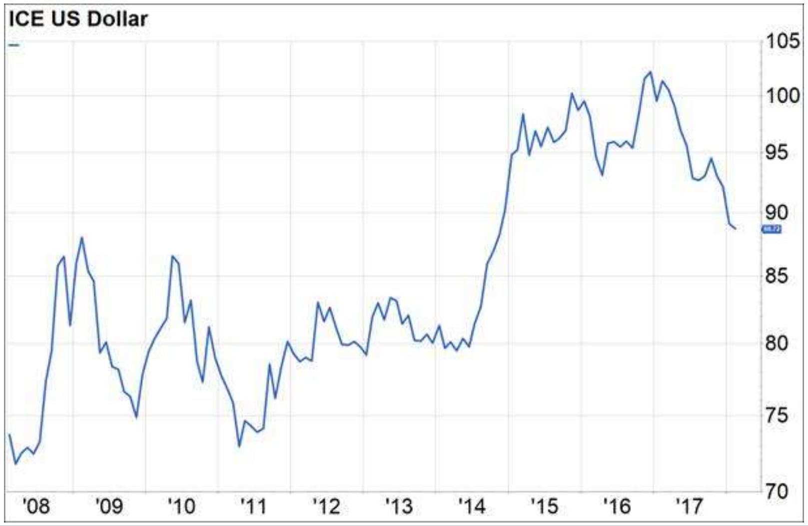
Market Recap

Implications of a Weaker Dollar



Source: Factset

Rising Expectations for 2018

Source: J.P. Morgan

Accelerating economic growth around the globe is encouraging fund flows into the yen, euro, and many emerging market currencies, putting increasing pressure on the U.S. dollar. The U.S. Dollar Index recently fell to its lowest level in more than three years, extending the near 10% decline suffered by the dollar in 2017 (the largest yearly decline since 2003). Further weakening of the dollar would have significant implications for investors. A weaker dollar makes U.S. exports relatively cheaper around the world, providing a tailwind to sales and profit growth for large U.S. multi-national firms. U.S. based international equity investors will also benefit, as the absolute dollar value of their investments will increase as the currency depreciates. On the other hand, a weaker dollar also results in higher import prices. The Fed will be watching this dynamic closely, as it could eventually drive marginally higher inflation readings.

Earnings season is well underway, with approximately one-third of companies in the S&P 500 reporting figures for the fourth quarter of 2017. The prevailing trend thus far has been positive, with healthy revenue and earnings growth across most sectors of the economy. While these backward-looking figures are important, the outlook for the future is perhaps even more so. To that end, forward earnings guidance has been encouraging, with many companies raising their estimates for the current calendar year. This balance between healthy actual earnings and forward-looking estimates has helped sustain the positive momentum in U.S. stocks.

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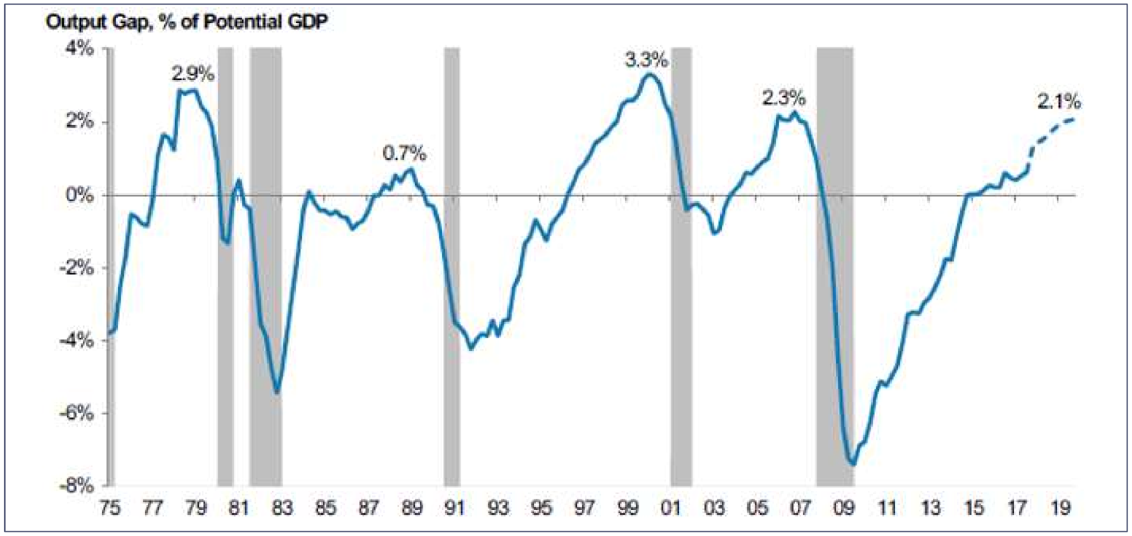
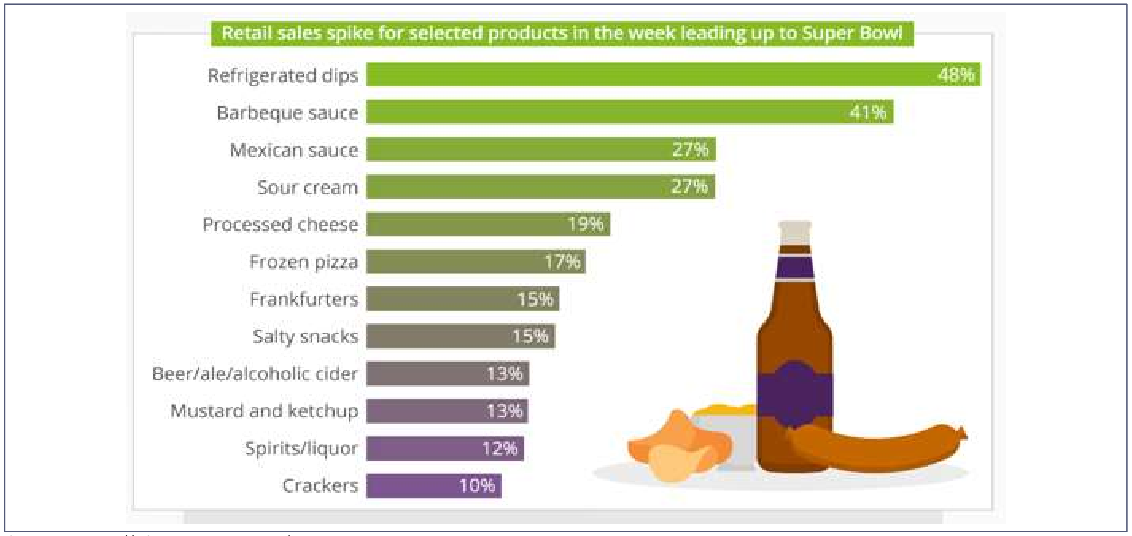
Positive Output Gap Signals Latter Phase of Business Cycle



Source: Morgan Stanley, Federal Reserve

Super Snacking Habits



Source: Wall Street Journal

The output gap is a measure of the difference between the actual output (GDP) of an economy and its potential output (i.e. GDP at full capacity, or maximum efficiency). A positive output gap occurs when demand is very high and factories and workers operate above their most (sustainably) efficient level to satisfy that demand, while a negative output gap occurs when excess spare capacity exists due to weak demand trends. A positive output gap is also the hallmark of an economy in the late stages of cyclical expansion, and suggests that an economy's ability to driver faster growth is nearly tapped out. While today's near-term outlook is stable and there is not a consistent level at which a positive output gap signals recession, it's unlikely that the pace of GDP growth will tick meaningfully higher in the current economic cycle.

Consumer spending habits around certain holidays and sporting events can be important from an economic perspective, and revealing from a sociological one. The 52nd annual Super Bowl will be played this weekend, with an estimated viewership of 110 million people in the U.S. alone. Americans have grown fond of this stealth holiday over the years, with many family and friends gathering to watch the year's most highly anticipated football contest, as well as the unique (and extremely expensive) television commercials. For a variety of snacking categories, Super Bowl Sunday has become one of the most significant days of the year.

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