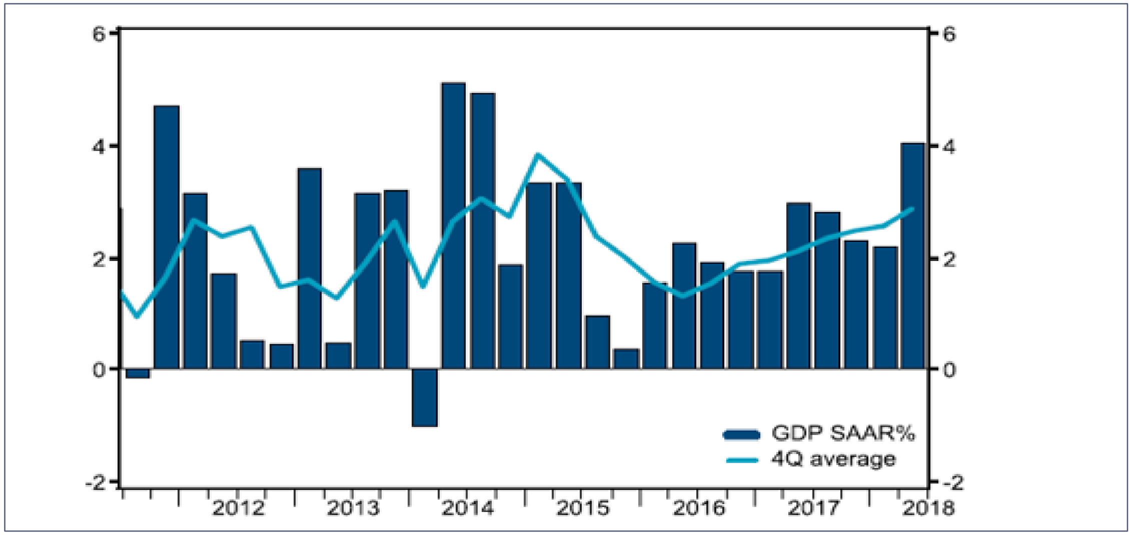
Market Recap

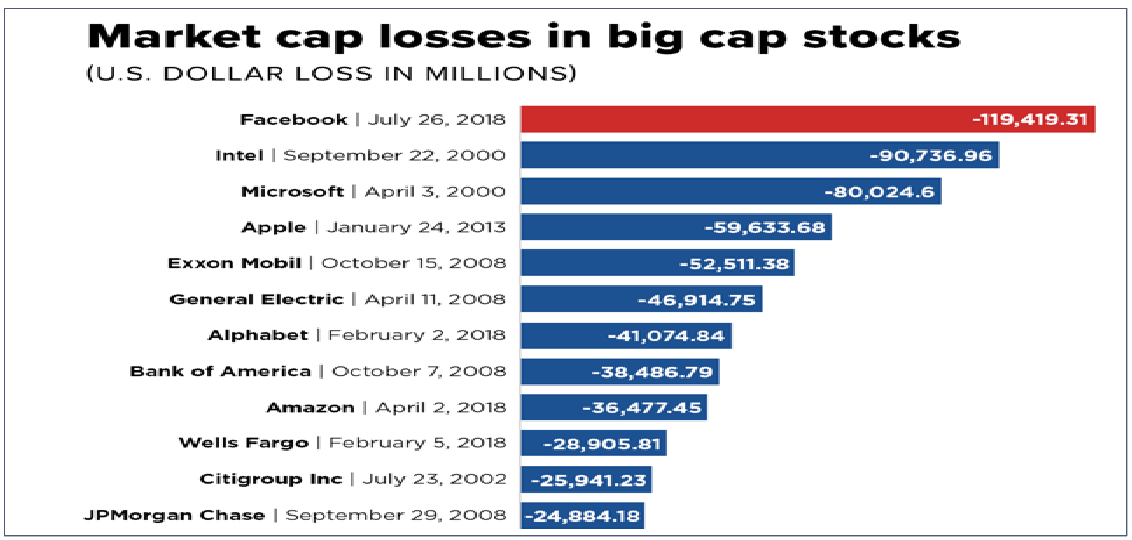
Economic Growth Remains Strong



Source: Bureau of Economic Analysis / Haver Analytics

GDP growth for the second quarter of 2018 rose to 4.1%, the fastest rate of growth in nearly four years. Key drivers behind the strong print include sizeable upticks in both consumption and business investment. In addition to this, an upward revision to the 2017 savings rate (raised to 6.7% from 3.4%) paints a healthier picture of household finances than previously thought. As companies begin to reap the benefits of lower domestic tax rates, the outlook for a continued acceleration in business spending remains positive. The big question that economists will debate in the months ahead is the sustainability of the current growth rate – while tax reform should benefit spending for the remainder of the year, elevated trade frictions are expected to hurt exports.

FAANG – More Than an Acronym



Source: Factset, CNBC

Facebook shares plunged nearly 20% after providing disappointing guidance following its second quarter results. As one of the largest publicly traded companies in the world, the sharp pullback in the stock was the largest single-day loss of market capitalization on record. Despite the setback, the company's stock price is basically flat for the year (only slightly lacking the S&P 500) and has settled back to where it was trading just prior to the Cambridge Analytica scandal broke back in April. Perhaps more importantly, the divergence in recent quarterly results (and stock movements) is evidence that while "FAANG" is a cute acronym to describe the popularity of America's Big Tech titans (Facebook, Amazon, Apple, Netflix, and Google,) investors do appreciate that the various FAANG constituents each have different business models with their own distinct operating environment.

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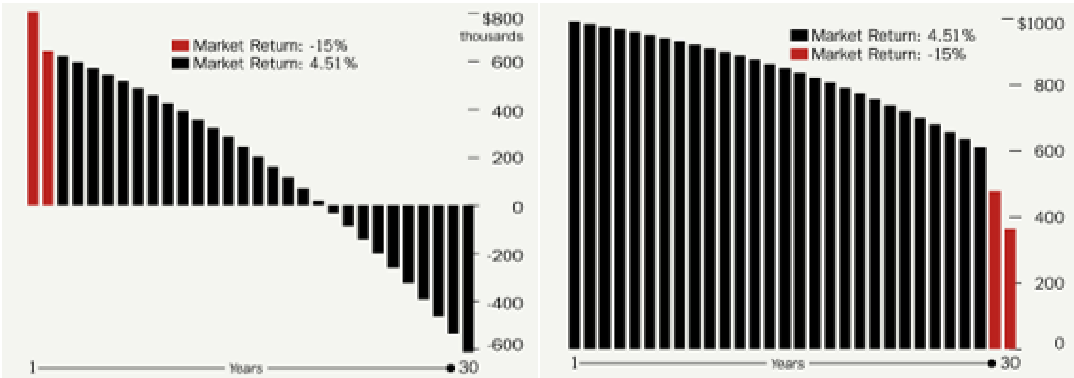
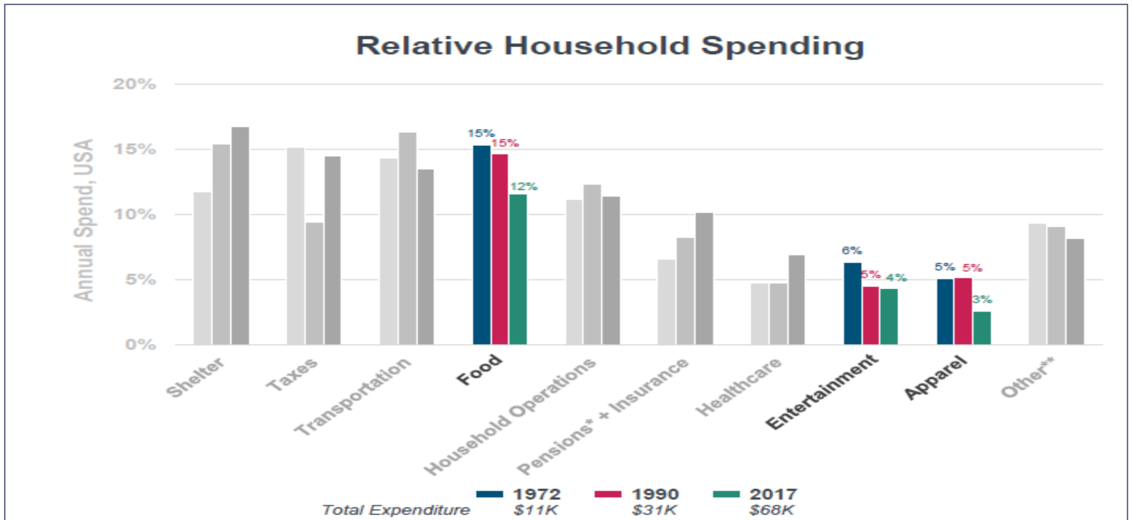
The Effects of Compounding at Different Stages of Retirement



Source: Barron's

Spending Dynamics by Households over Time



Source: Kleiner Perkins

Investors often choose to bear various types of risk (e.g., equity market risk, currency risk) with the expectation of earning a long-term real return (i.e., return over inflation). A more nuanced type of risk is sequence of returns risk, which is the risk that a new retiree experiences if he/she withdraws from their retirement accounts under poor market conditions early in their retirement. Put differently, due to effects of compounding, a large market downturn early in retirement is far more difficult to overcome than if the same large drawdown occurred later in retirement. For example, assume a new retiree with $1 million in investable assets, a 30-year investment horizon, and a projected average annual return of 3.0%. If that new retiree experiences two consecutive declines of 15.0% in Year 1 and Year 2, he/she would fully exhaust their funds by Year 21. However, if the same retiree saw those declines in Year 29 and Year 30, they would still have $364,000 in remaining funds.

Data on consumer spending can be quite revealing. Over the past 50 years, patterns in household spending have undergone dramatic shifts, influenced by a variety of factors, including: changing consumer preferences, technology improvements, modest inflation-adjusted wage growth, increased credit growth, and increased competition within select industries. For example, increased competition within the retail grocery industry has held down prices, while improved inventory and supply chain management enabled some grocers to lower prices even more. Collectively, these forces led to a significant decline in relative household spending on food, dropping from approximately 15% of overall spending in 1972 to 12% in 2017. Despite this improvement, many households were unable to hold onto this "savings", as price increases in other household spending categories (e.g., shelter, retirement, and healthcare) effectively forced households to allocate an increased portion of their spending elsewhere.

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