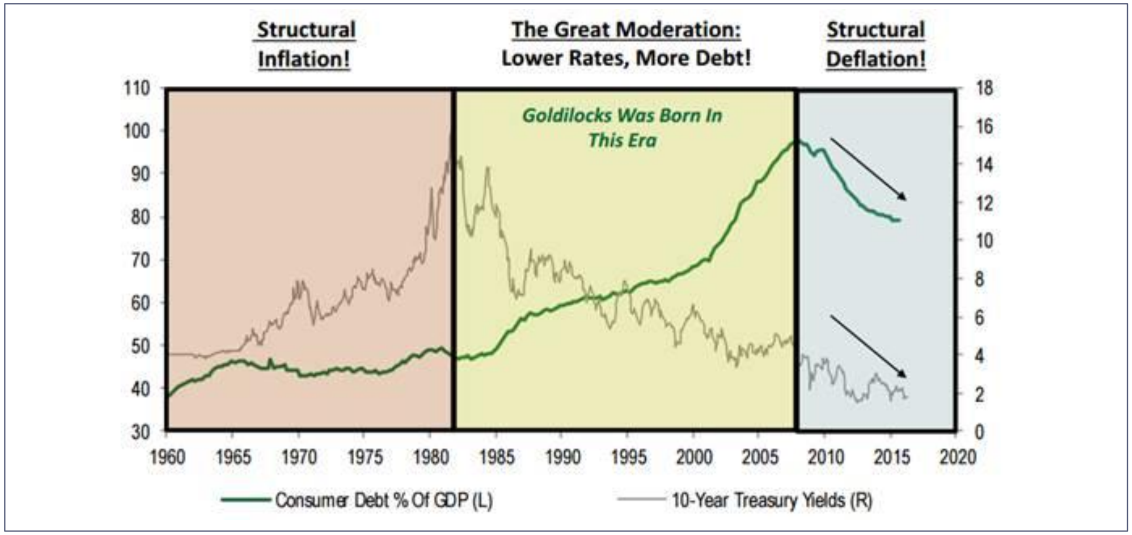
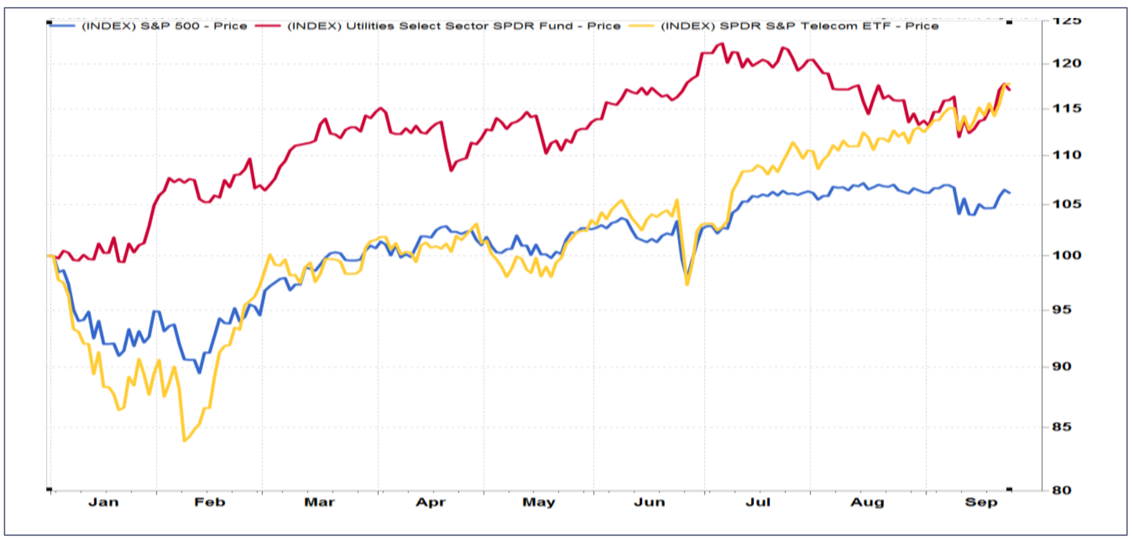
Market Recap

The De-Levering of the U.S Consumer



Source: Cornerstone Macro

Sometimes Playing It "Safe" Can Be Risky



Source: Thompson Reuters

From the early 1980's through 2008, two driving forces of U.S. economic expansion were decreasing interest rates and rising consumer debt (as a percentage of GDP). Given the formidable significance of the consumer to the U.S. economy (representing just under 70% of GDP), this increase in debt created something of an earnings bubble – when consumers add more debt and spend more money, business activity increases and leads to higher earnings. Since the Financial Crisis of 2008, however, this trend has reversed, with consumer debt decreasing even as rates continue falling closer to zero. The unwind of the consumer debt load has negated the cushion that the consumer once provided the larger economy, resulting in slower growth and shorter business cycles. These developments, together with greater-than-usual reactions to macro forces, have made markets challenging for investors to navigate.

Since the beginning of the year, faced with mild prospects for economic growth and with interest rates near all-time lows, many risk-averse investors seeking better returns have shifted assets towards the Utilities and Telecom sectors, both of which feature stable business models and generate attractive dividend yields. Despite middling business results in 2016 YTD, this flow of capital has driven up valuations for both sectors. This week, however, as the prospects for an interest rate hike strengthened following the Fed's quarterly meeting on Wednesday, it became apparent that this trade may be headed toward an unwind as income-seeking investors migrate to less pricey investment alternatives. In short order, the "safe" trade may have become a lot riskier.

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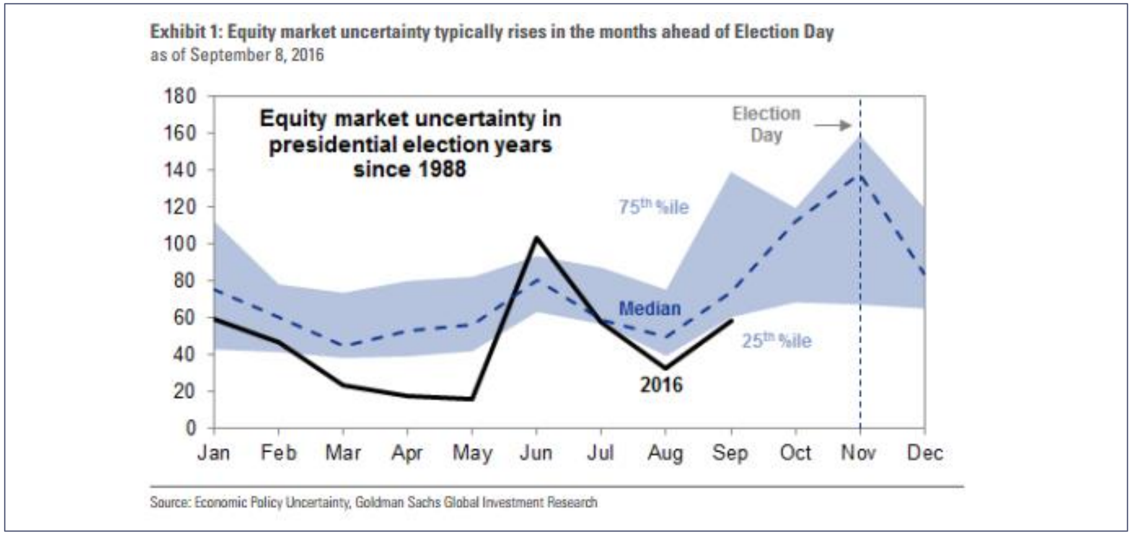
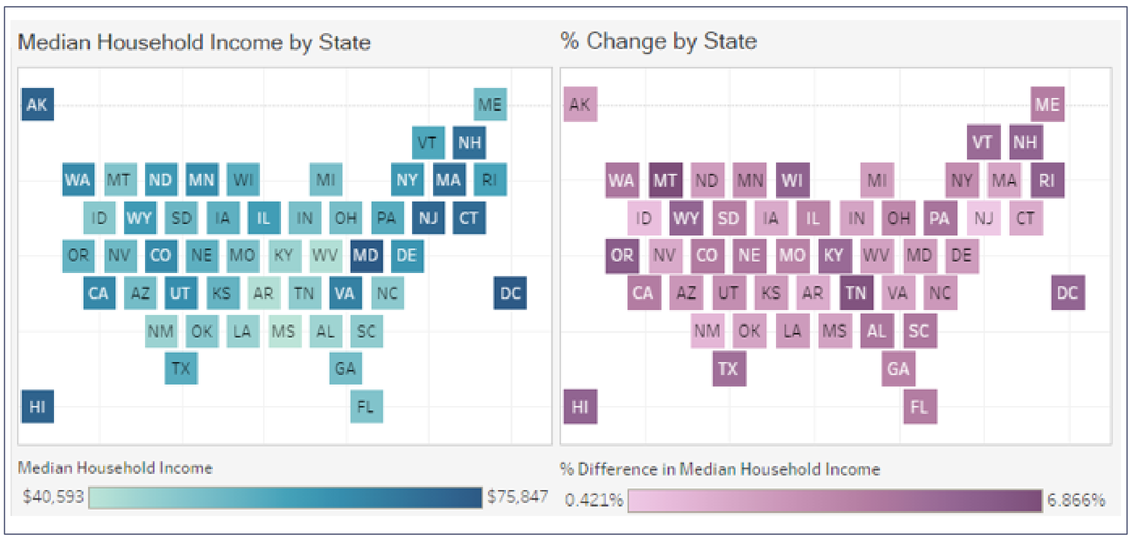
Elections Historically Bring Higher Uncertainty to Markets



Source: Goldman Sachs

Strong National – But Varied State – Gains in Median Household Income



Source: Overflow Data

Historically, during the months preceding an election in the United States, the equity markets are more volatile – and often come under pressure - as a result of higher-than-usual uncertainty. As each election nears, media and investor attentions turn towards the likely policy outcomes of the ensuing vote. In a close election in which articulated policy – while still high-level - may be dramatically divergent, it is no surprise that uncertainty among investors would be high. And this uncertainty only grows as coverage increases and election day nears. It is not particularly surprising therefore, that, in the three months following 70% of elections since 1976, equity markets have risen, regardless of which party was victorious. The simple fact is that markets and investors do not like uncertainty, and just the knowledge of the policy outcome has historically been enough to lift broad equity markets.

New data released by the Census Bureau reveal accelerating growth of median household income in the U.S., though still shy of 2007 levels. From 2014 to 2015, median household income rose 3.947% to $55,775. (A different survey reported median income of $56,516, which would signal 5.2% growth – the highest on record). At the state level, Montana experienced the largest year-over-year increase (6.866%), yet its real median household income of $49,509 still falls well below the national median. New Jersey registered the slowest annual growth at 0.421%, though its real median household income of $72,222 ranks fifth nationwide. Despite modest 2.536% growth, Maryland retained its status as the state with the highest median household income ($75,847), while the median Mississippi household (the lowest in the U.S.) earned $40,593, up 2.301% from 2014. Hawaii fared the best overall, with the third-highest median household income ($73,486) and 5.595% growth.

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