VAN LIEW TRUST COMPANY

as we see it

Spring 2018

THOUGHTS FROM OUR CHAIRMAN

Around the world a number of countries are now reevaluating globalization. How safe is it to be globally dependent? Is a country and its industries economically better off being globally dependent? US companies have profited in the globalizing environment. As we moved to a more service driven economy, investors have benefited as companies moved manufacturing and sales to take advantage of opportunities around the world. Investors are questioning whether we can have it both ways. Can our international companies continue to grow profitably while beginning to refocus growth and resources on the US? It is likely there will be some companies that will thrive in this new environment, and for others, it will be a struggle. At Van Liew, we are watching closely and looking for investor opportunities.

Our associate, Wade Walbrun, in this Spring issue, reflects on the many positives and negatives that are currently facing investors.

Alfred B. Van Liew

Don't Talk to Me About Numbers

Wade Walbrun

The latest batches of quarterly reports are rolling in and they look pretty good. Year-over-year corporate earnings growth is expected to be around 20%, largely as a result of the added benefits of a reduced corporate tax rate. Likewise, projected corporate earnings growth for 2018 is estimated to be 18%, and about 10% earnings growth for 2019. Under this rosy scenario the 12 month forward price-earnings multiple for the S&P500 is expected to be 16.3x, cheaper than any time in the last two years. Workers' wages are rising, up 2.7% in the latest US Bureau of Labor Statistics report, the unemployment rate is under 4% and retail sales have grown 4.5% over the last year. Top this off with capital expenditures growth of over 6% in 4 of the last 5 quarters and the 1Q 2018 GDP of 2.3% the best first quarter report since 2015.

Good news, right? You'd think investors would be happy and stock market returns would be robust. But no, the stock market is essentially flat year-to-date. The message it's giving appears to be, "Don't talk to me about numbers". Why?

Tariffs – The back and forth of proposed tariff announcements between the US and China have investors spooked that there will be a trade war. As a result, some prices would likely increase, consumers would be the ones to pay for it, and, as such, would have less money to buy goods to keep the US economy moving. The reality is proposed tariffs by China target only about $50 billion of US goods exported. With a US Gross Domestic Product valued at over $18 trillion (yes, trillion), the likelihood of any real economic pain seems remote.

Inflation - A recent report of 2.9% (year-over-year) gain in worker wages as measured by the January US Bureau of Labor Statistics report was met with bold proclamations by some pundits that inflation was getting out of control. The reality is year-over-year worker wages moderated to 2.7%

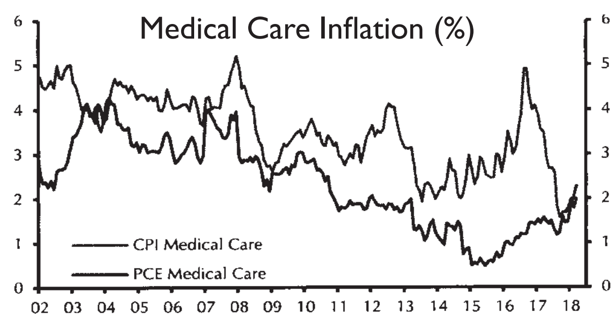
growth by the March labor report. Compared to the March 2017 report which showed 2.6% wage growth it seems hardly a dramatic rise. Similarly, the core Personal Consumption Expenditures (PCE) prices paid index, the instrument the Federal Reserve looks at to gauge US inflation, sits at 1.9%. While the inflation rate is modestly higher than any other time in the last 12 months, it is still below the 2% guideline the Fed targets for the US economy.

Interest Rates - The latest move up to 3% in the US 10-year bond yield has many on Wall Street concerned such a level may stifle economic growth. The reality is that a rise in interest rates is generally a sign of health in the economy and recent US economic data back up the premise. A 3% US 10-year bond yield is considerably lower than in times past. In fact, prior to 2008, the US experienced more than 40 years, through economic booms and recessions, with interest rates above 3%. We think this move above 3% is simply part of the normalization process of interest rates.

We view tariffs, inflation and interest rates as seemingly the most pressing worries among investors; yet, they are by no mean the only matters on their mind. Concern that the bull market may be getting too long in the tooth, oil prices could be rising too much, foreign economic growth might be decelerating and fear investors may have seen peak earnings are just a few items that drag, to some degree, on Wall Street expectations.

The recent moves in trade policy, levels of inflation and interest rates are significant concerns to monitor, yet we think their deleterious effects on the US economy may be overstated. Similarly, the weight investors are allocating to these concerns in their investment outlook seems misplaced. Investors may be missing the bright big picture. We think investors should focus on the promising underlying fundamentals of the economy and stock market. We like the optimistic story the numbers are telling.

T R E N D L I N E S



The recent rise in medical care inflation is still below the 3% range we saw in the early 2000s. With total health spending projected to grow 5.5% per year over the next decade could this be the real inflation threat going forward?

We would be delighted to meet with you to share comments about this article, or to review your portfolio in detail.

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