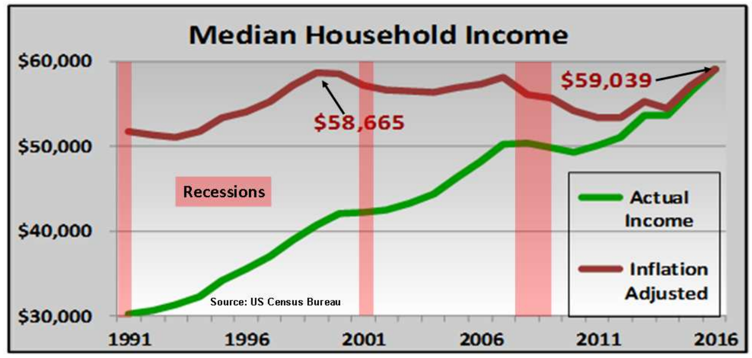
Investment Watch

3rd Quarter, 2017

RECORD INCOME



After a long dry spell, American households are finally reaping the rewards of their efforts with strong real income gains. **US Median Household Income** set a record at $59,039 in 2016 surpassing the previous peak of $58,665 in 1999. Since the end of the last century American families have had a rough road, losing ground caused by the disastrous double-dip recession. The 2000s ravaged American households and were dubbed the *"Lost Decade"*. The road back has been mired by slow growth and a long period of wage stagnation.

These setbacks to our prosperity were exacerbated by two stock market crashes that triggered two major recessions. In early 2000, the Tech Bubble burst and the dot-com crash ensued. Then in late 2007 the sub-prime mortgage crisis crushed home values and sank stock markets. The *"Lost Decade"* took its toll.

The Great Recession was deep and the recovery slow with meager US growth of 2% per year, a full percentage point below prior recoveries. Although job growth has been strong and the current 4.4% unemployment rate is considered full employment, real wages had been stubbornly stuck below their pre-recession levels. Finally since 2015, American households are at long last enjoying their strongest sustained income growth on record. Not only has Household Income reached new heights, **US Household Wealth** keeps setting all time records due to the soaring stock market and rising home prices.

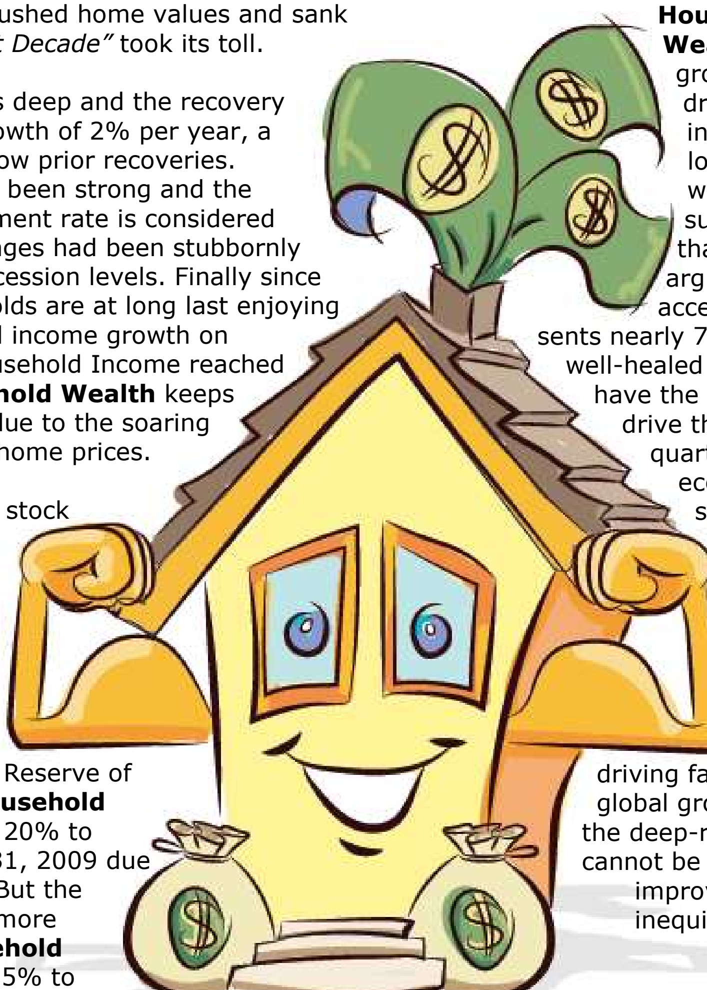
Since the March 9, 2009 stock market rock bottom, the S&P 500 has gained an average of just under 14% per year, without suffering a bear market. At the same time, the median new home price has increased by 45% according to the Federal Reserve of St. Louis (FRED). **US Household Wealth** had plummeted 20% to $55.1 Trillion by March 31, 2009 due to the Great Recession. But the rebound has been even more dramatic with **US Household Wealth** soaring nearly 75% to $96.2 Trillion from depths of the recession, while household liabilities have only slightly increased resulting in solid balance sheets for the average American family.

Many pundits believe that a correction or bear market is imminent due to the high costs of stocks as measured by their Price/Earnings ratios (the cost of a stock/dollar of earnings). They argue that US GDP growth is too slow and the prices of stocks are too high, well above historic averages, and they cannot be sustained.

On the other hand, many believe that the record **Household Income and Household Wealth** are the keys to propel US growth at a more robust pace and drive this current bull market well into the future. They argue that the low interest rate environment, along with continuing low inflation, can support higher Price/Earnings ratios than the historic averages. They also argue that economic growth may accelerate. Consumer spending represents nearly 70% of our economy and the now well-healed American Households may at last have the strength to boost spending and drive the economy. US GDP in the second quarter was a robust 3.0% and Macroeconomic Advisors forecasts an even stronger 3.4% for this quarter.

The prospects for greater growth don't only reside here at home, but are being felt throughout the world. There is global economic acceleration as expanding consumption, investment, and labor market performance are driving faster growth. This synchronized global growth has been absent for so long the deep-rooted concerns of its sustainability cannot be disregarded. Lack of productivity improvements along with the lackluster, inequitable world real wage growth could curb this coordinated momentum.

We are unescapably linked to this global economic engine that is finally firing on all cylinders. The world is hoping we all can stay on the tracks this time.



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