Economic & Market Overview

as of March 31, 2017

Growth stocks did well in the first quarter of 2017, while value stocks and the bond market had positive returns but lagged. Markets responded to generally weak economic news and problems experienced by the Trump administration. First quarter GDP is currently estimated to have slowed from the fourth quarter rate of 2.1 percent to around 1.5 percent.

Corporate earnings may improve substantially over the next few years, as the U.S. dollar may not be a drag on earnings. A modest recovery in commodity prices should add to earnings growth, particularly in the energy sector. Better economic growth in overseas economies could also help the earnings of multi-nationals. While operating earnings for the S&P 500 over the past twelve months were $108.55, estimates for 2018 can currently be found in the $140 to $150 area.

If President Trump is successful in accelerating U.S. economic growth, stocks will likely benefit from better corporate earnings, but this may be offset by higher interest rates. Should the President fail to achieve his goals, corporate earnings are still likely to grow, while interest rates may well remain fairly low. Either way, we believe the fundamentals for stocks should be reasonably good.

There are some areas of concern, and high valuations leave us vulnerable to disappointments. Bank lending volumes have ceased to grow, auto sales are off their peaks, restaurant sales have been disappointing, and many retailers are struggling. American middle class and blue collar families are not yet getting the wage growth they need.

Another possible concern is Central Bank monetary policies. The Federal Reserve is talking about two to four rate increases in 2017, versus one increase in 2016 and one in 2014. The European Central Bank will likely buy fewer bonds in 2017 than 2016 and may cease to be a net buyer of bonds in 2018. China's Central Bank is once again trying to rein in its rapid credit growth. Japan's Central Bank may reduce its accumulation of assets by some time in 2018. To the extent "easy money" has been behind strong market returns over the past several years, the environment may not be as good going forward.

We like current fundamentals, are concerned by high valuations, and remain vigilant.

Washington Capital MANAGEMENT, INC. 1200 6th Ave, Suite 700 ● Seattle, Washington 98101 ● Phone (206) 382-0825 ● Fax (206) 382-0950 ● www.wcmadvisors.com
Anchorage (907) 272-5022 Spokane (509) 353-7992 Portland (503) 248-9188 Northern California (415) 543-3400 Southern California (310) 376-7259