State of the Economy June 2017

Janet Yellen hit the nail on the head last week when she proclaimed, "the economy is doing well, is showing resilience". This may be an understatement as the stock market continues to surpass all time highs while continuing to ward off political uncertainty, as well as another oil bear market. The Standard & Poor’s 500 index is up 8.9% in 2017 as of last Friday, after experiencing 24 record highs. Even more remarkable is how the maximum drawdown over these six months never exceeded 2.8%, which makes this the second smallest first-half drawdown in 89 years. In other words, the stock market has avoided all major hiccups during the first half of 2017. It is almost as if the market has become numb to any obstacles that get in its way.

Last week the Federal Reserve decided to raise rates for the 2nd time this year. The move signals confidence in the economic expansion. The Fed even penciled in one more rate hike this year based on a historically low 4.3% unemployment rate. Their optimistic outlook is also partially attributed to the climb in the stock market. It appears that as the market goes, the Fed rate follows.

Robert Mueller’s Russia investigation and the price of crude oil are two issues that could have a significant impact in the success of the stock market going forward. The expectation of lower tax rates set by President Trump kicked off the start of the 2nd quarter. However, the Russian inquiry has dominated the headlines and hindered the administration’s tax reform efforts. Oil has also climbed back into the headlines as crude oil prices continue to decrease. The price of oil, currently around a 10 month low, has been rattled this year by persistent increases in U.S. crude production. The pessimism on both oil and gas resulted in energy being the worst performing sector in the market this year.

Around the world, the developed international markets have shown a resurgence in 2017. The EAFE index (made up of Europe, Australia and Southeast Asia) is up 14.5% as of last Friday. European economic data has been strong this year with Germany and Japan leading the way. Additionally, the financial markets received a boost by the election of Emmanuel Macron as President of France. Macron is seen as a supporter of European integration. U.S. investors have helped push international stock markets higher by putting more money in international funds than investing in domestic stocks over the past 12 months.

Currently, the state of the market seems to be stuck in its own tug-of-war. On the one hand, the market has shown no signs of letting up and the Federal Reserve has reaffirmed a positive outlook. On the other hand, it's possible we could be due for a correction after trading with low volatility during the first half of the year. With the Russian investigation ongoing, it sure seems like the next six months will be a tougher test for the market.

Hang on for the ride.

I want to wish everyone a wonderful 4th of July.

Sincerely,

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