MONTHLY UPDATE AND COMMENTARY
APRIL 2017

Dear Investor,

Enclosed please find our Market & Economic Update for April 2017.

While the markets have been meandering as of late, we could be setting the stage for another move higher. Geopolitical issues, robust valuations, and mild gridlock in DC have kept things in check, but we are moving into Q1 earnings season which could provide a catalyst. The expectations are for an increase of a little over 10% in S&P earnings, the best we have seen in nine quarters. Given that the dollar has remained stable thus far in 2017, we think those estimates will be met or exceeded. These actions should provide, at minimum, a floor to stock prices until Congress gets back from their Easter recess on the 21st and moves toward discussions of tax reform.

Geopolitical risk is difficult to handicap, but North Korea seems to be the hot button that could derail the aforementioned market stability. Fortunately, Kim Jong Un's bark tends to be worse than his bite until proven otherwise, and we further believe it possible that the president may have reached a tacit understanding with China's leader to help keep North Korea in check. Russia's response to the U.S. missile strike in Syria remains a wild card as well, but we believe "hostile diplomacy" will prevail.

Back to Washington, we were able to sit down face-to-face with two members of the Freedom Caucus last week on Capitol Hill. Expectations were that they would be dogmatic about the need for tax reform to be revenue neutral, but we came away with a more optimistic view; both members were able to corroborate our hope that a corporate tax rate in the neighborhood of 25% is highly probable by late fall, without a Border Adjustment Tax. It is hard to tell if this potential tax cut is baked into the market, but a lack of reform could lead to a correction. Unfortunately, they seemed less optimistic about an individual cut, or seemed to indicate it would be relatively small if pushed through.

There are two areas of longer term risk that we are still focusing on. First is the debt situation in China, which continues to spiral out of control and has potentially significant implications for China's domestic economic growth in coming years. Second, we are paying close attention to US consumer leverage, which has been accelerating; last week we hit the trifecta, with student loan, auto, and credit card debt all crossing over $1 trillion. These debt loads are cautionary flags at the moment, but have the ability to act as a negative catalysts for US growth. Please call me with any questions as I would welcome the opportunity to talk with you about the markets or the economy.

Best,

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