

Volatility has returned after a prolonged and eerie absence from the market. Commencing with positive wage growth, implying inflation risks in early February – then augmented by the expansion of antics out of Washington. With fears of a U.S. – China trade war, along with high profile departures / revolving door for key cabinet positions, pressure is on share prices and has added supplemental fuel for increased volatility. The departure of Gary Cohn as chief economic advisor is particularly disturbing. Lawrence Kudlow as replacement will need to be evaluated over time.

A trade war would be a tragedy with no probable winners. It is likely that some compromise will be reached. There has already been progress made on adjustments with the tariffs imposed upon steel and aluminum imports. Steel and Aluminum in total account for roughly 2% of global trade. Technology exports make up 17% of U.S. gross domestic product (GDP). Our intellectual property is incredibly important on many fronts. Economic considerations are forefront, and protections for our intellectual property while promoting free trade might be a preferred course. Changes in trade policies and negotiations occur at a snail's pace. The tweets originated by President Trump are of course the initial volley, often extreme and met to intimidate his adversaries or trading partners, as the case may be. The effectiveness of this style of leadership will be judged historically. At the moment, it seems to be somewhat effective in creating an initial position. It is also effective in sending tremors through the markets, most recently Amazon's and other technology share prices.

Just as worrisome is the stumble in leadership by the technology sector. Technology has been driven by powerful trends over the last decade. Advancing new technologies are disrupting existing in real terms. The new shadow of regulation is moving quickly to the forefront following Facebook's weak controls on data. The "delete face book" movement, along with potential for advertiser defection has driven Facebook shares lower for the near term.

During 2018, banks should benefit from wider net-interest margins post two recent fed rate hikes in December and March. Coupled with the sector being clear beneficiaries of tax reform, the earnings per share are likely to escalate in 2018 and beyond. A flight to fixed income during recent turmoil in equity markets have driven yields down fractionally. The interest rate path of the Fed will overshadow markets for the short duration bond markets. For a broader perspective, S&P 500 earnings from continuing operations are projected to grow in the 19-20% range. Approximately 7% of this growth can be attributed to tax reform. This type of growth rate sustained through 2018 is incredibly bullish for equities. At issue: earnings are at this point forecasted. Not a penny of 2018 earnings have been reported as of this writing. 1st quarter 2018 reporting starts in earnest over the next few weeks. To continue a bullish thesis, there is a large probability that the tax saving accruing to corporate America will be directed to capital investment along with operational expansion beyond 2018.

No surprises yet on the new Federal Reserve Chairman Jerome Powell. The first meeting showed impressive continuity with the Janet Yellen led Federal Reserve. The noted economic strengthening in recent months has only accelerated. Fundamentally, the economy is set to continue on a strong growth path. Surprising is the duration of the current expansion. Understandable given the prolonged almost anemic growth in the early years of current growth cycle. Balancing an optimistic view is loss of market leadership for the moment in the tech sector, fears of inflation, and increased regulation after the Facebook/ Cambridge Analytica debacle.

As always, it is important to keep a long term perspective on financial markets, avoiding if possible the over exuberance in rising markets and conversely panic during periods of uncertainty. Please call or email anytime with questions, concerns or strategy/ investment objective updates.