



May 2017

## Earnings Spring Forth

In the first quarter, US companies posted their best earnings growth since 2011. The earnings of large-cap S&P 500 companies rose approximately +12.5% year-over-year (the highest rate since +16.7% in Q3 2011). The US economy remains on track. GDP expanded at a +3.0% annual rate in current dollars in the first quarter. The stock market appears to confirm the continued economic strength, as the S&P 500 gained a further +1.2% in April.

### Stocks, Bonds and US Economy

	Total Return / Growth in 2017
US Stocks (S&P 500)	+7.4% (Jan-Apr)
US Bonds (Barclays US Agg)	+1.5% (Jan-Apr)
US GDP (current \$)	+3.0% (Q1)

Source: FactSet, April 28

## A TALE OF TWO MARKETS

Thus far, 2017 has been a tale of two markets. The S&P 500 has delivered a total return of +7.4% and the Barclays US Aggregate Bond index has gained +1.5%. Positive stock performance indicates that growth fundamentals are expected to remain intact. Yet, the decline in bond yields this year forecasts potentially lower growth and lower prospective returns ahead.

*Markets in 2017 are telling two different stories. Positive stock performance indicates that growth fundamentals remain intact. The decline in bond yields forecasts potentially lower growth.*

To be clear, the bond market is not predicting a full-blown recession, as yields on long-term bonds still remain comfortably higher than those on short-term ones.

It is worth keeping in mind that the current 2.33% yield on the US ten-year note is well above the 1.78% level where it stood on November 4th and

is higher than at any point in 2016. Even the bond market seems to acknowledge that the long-term growth outlook has improved significantly from a year ago. Going forward, a combination of slow and steady economic growth and rising interest rates should bolster equity market returns in the U.S. and Europe, while delivering subpar results for medium to long-term fixed income portfolios. As such, we have shortened the maturity profile for our clients' fixed income holdings recently.

### KEEP IN MIND:

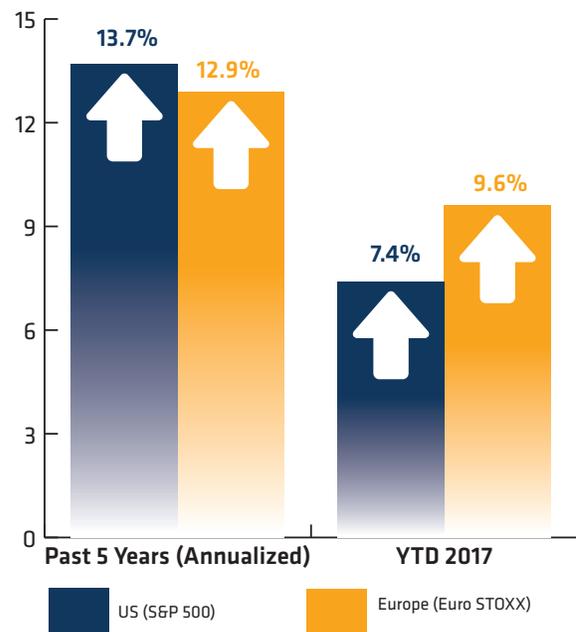
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# MARKET Insights

## OVER THERE: SPOTLIGHT ON INTERNATIONAL EQUITIES

We have noted recently that international stocks are becoming more attractive as economic activity picks up in Europe and Japan. Earnings for non-US companies have in fact increased significantly in 2017, after several years of declining growth. European equities benefit from the resurgence of global growth because of the region's relatively lower valuations and its exposure to cyclical industries such as banks, exporters and manufacturers. The first round of French presidential voting on April 23rd indicated that Emmanuel Macron, an establishment candidate, will likely win the election. This removes a major risk for investors and European markets gained +3.6% in the week following the election runoff. We remain overweight in US equities as part of a global equity allocation, but anticipate adding more exposure to European markets if growth improves relative to the US.

### Europe Rebounds in 2017



Source: FactSet, April 28

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