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Recent news has been tragic with destructive hurricanes and the horrific shooting into crowds and yet the stock market perks along, calmly moving to new highs. The disparate behavior reveals the separation of emotionally provocative news from economic reality. As tragic as the weather extremes and human cruelty may be, the rationale of economics is seen to operate in a separate universe, although with some interactions. For example, the recent events will have some measurable economic effects: The risk of being among large crowds may suppress ticket sales to public attractions. Likewise, the destruction in areas ravaged by nature will be followed by massive reconstruction of buildings and infrastructure. Car sales are already surging to replace those lost to storm damage. These flows of money and labor will add to economic activity in the year or two ahead. Likewise, a predictable increase in public scrutiny and crowd control will require more manpower and police activity.

Economic predictability, though far from infallible, is a good deal easier to fathom. The current prosperity is a good example: Consumption trends have been positive for an unusually long time; unemployment levels are low, although we should consider that the segment of the adult population not now in the active labor force could reenter in the future.

With respect to investment values, our take is that bonds are fully valued, especially long term bonds which are laden with risk, but short term high quality bonds remain useful for stability. Stocks on the other hand, while looking fully valued at 24 times last twelve month earnings and 19 times forward estimates for the S&P 500 Index, may actually be reasonably valued in light of the positive outlook which currently is generally agreed upon.

Here are the essentials: First, interest rates are low and probably will rise to moderate with a series of increases amounting to about a half point per year tentatively planned by the Fed for the indefinite future. Inflation rates are the key here in that liquidity can stay high and rates low as long as the economy stays in a benign growth pattern, neither too slow nor too fast. However, if the current GDP growth rate of 3.1% is exceeded, the Fed would be likely to raise rates more aggressively to prevent demand for goods and services from pushing prices up too fast. Inflation has been meandering along at a comfortable rate of just under 2%. Past history suggests that a breakout will happen sooner or later, and that timing is the pertinent question for the investment markets.

700 East Ocean Blvd Suite 2703 Long Beach, California 90802
Phone 562 435 5650 Fax 562 495 0462 alcap.management@verizon.net

Second, the nature of current demand is relaxed. There are no signs of excessive demand on the horizon such as would occur during wartime. Housing demand had just begun to decline from the prior robust trend, but that will be reversed by the restoration of recent storm damage. Assistance to European countries experiencing migration inflows from North Africa and the Middle East will be a modest contributor as well, and that stimulus should fade in a year or so after ISIS is suppressed. And now that China and Russia have evolved from potential enemies to commercial colleagues, the international outlook looks decidedly placid. Another demand booster would be the pending reductions in corporate and personal tax rates.

Third, the political outlook in the US is positive in that the current administration seems strongly inclined to finance internal reconstruction and modernize the Nation's military capacity. Public opinion seems agreeable to such plans. Meanwhile, the opposing party has suffered a significant reduction in financial resources and political power.

Looking very far out, say as long as twenty years, policy making will recognize that we are addicted to keeping growth rates high, as that is the only path that enables the financial system to cope with a $ 20 trillion dollar, and still growing, national debt. The alternative is too awful to contemplate.

For practical purposes, however, the more pertinent time frame is the upcoming two years or so. In that time frame, and barring a serious error by North Korea or some similar unwholesome event, the outlook is for a moderately prosperous experience.

Best wishes for a pleasant Holiday season.

John May

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