Winslow, Evans & Crocker, Inc.SM

MAR. 2017 GLOBAL ECONOMICS & CAPITAL MARKET COMMENTARY

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Overview

2017 Economic Momentum: A Continued Shift Toward The Goldilocks Scenario

We take up where we left off last month as we highlight the continuing flow of new data that confirms the view that we are moving into the "Goldilocks" quadrant of our stylized depiction of the economy and interest rates, Chart #1. This quadrant presents the most bullish environment for equities which, of course, is critical in shaping our portfolio construction and asset allocation and a likely cause of the stock market's recent run.

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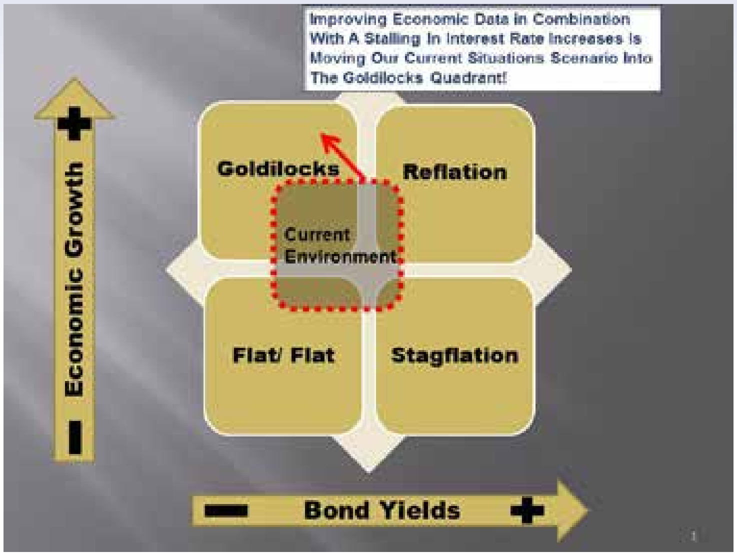

CHARTS 2-3

In December of last year we pointed out that the market's breakout to a new high could portent a multi-year upswing similar to the one experienced in the 2005 to 2008 timeframe. This is shown in Chart #2.
The economic data that informs our view of the "Goldilocks" scenario is the strength in both domestic and global lead indicators. For example, the US ISM Manufacturer's Survey depicted in Chart #3 now stands at a multi-year high and has a strong correlation with real GDP growth.

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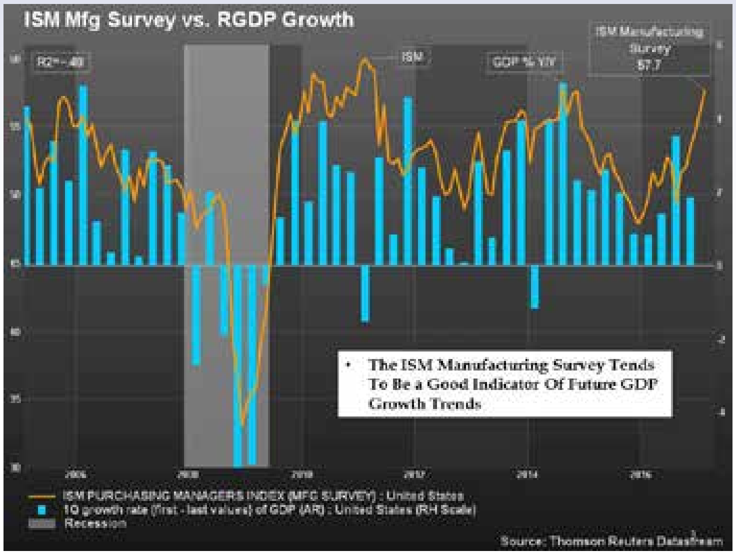

CHARTS 4-5

On Chart #4 is another illustration of an important leading indicator, the ISM Manufacturing New Orders Survey. This survey gives us some insight into the direction and magnitude of future growth in the earnings of the S&P500 which in turn impacts market valuations. You can see in this chart that this survey is near its prior peaks for this economic cycle just as earnings growth is picking up momentum.

The weekly initial unemployment claims are also considered to be a good leading indicator and are currently at a 42 year low. As you can see in Chart #5 this has also led to a surge in both consumer and business confidence surveys which now stand at the highest levels of this cycle. This bodes well for future employment and business expansion. Also, as mentioned above, the global economic activity leading indicators are following a path similar to that of the US.

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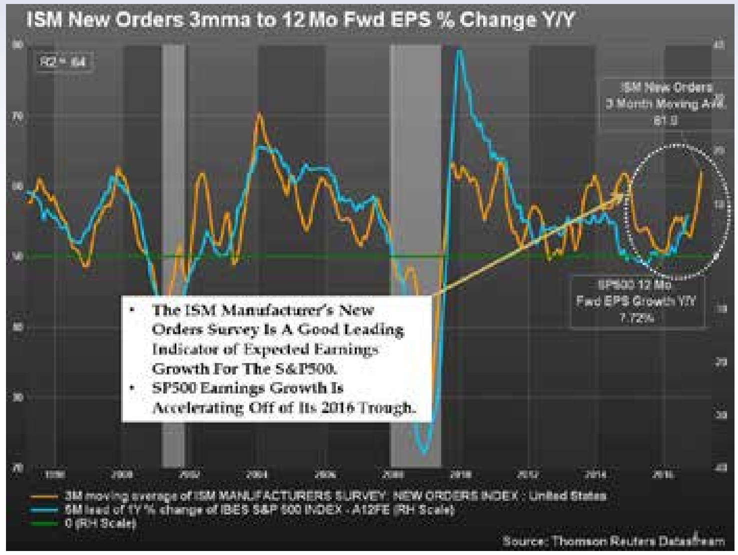

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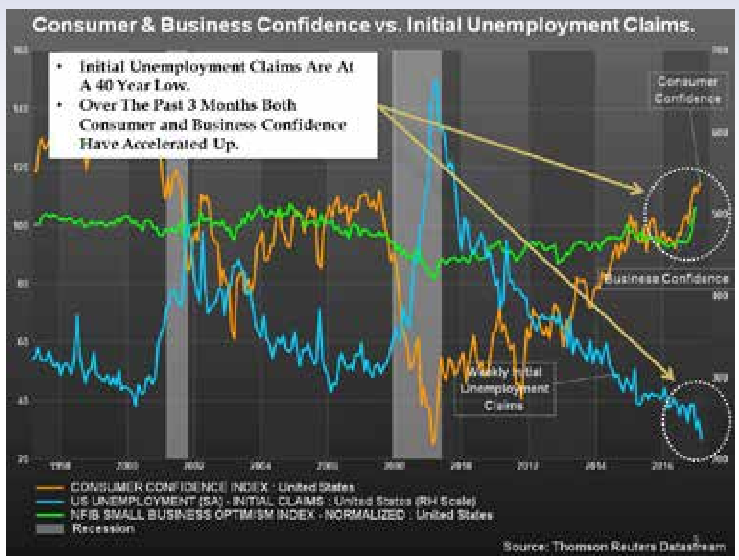

CHARTS 6-8

Chart #6 shows the global Purchasing Managers Index at a four year high and the OECD leading indicator in a strong uptrend and approaching the levels of early 2015. As a consequence of stronger global economic activity we are seeing a rise in global inflation rates, Chart #7. For the period from 2008 through mid-2016 a major objective of central banks was to avoid having their economies collapse into a deflationary spiral. This broad increase in inflation is evidence that, at least for now, global stagnation has been averted. That notwithstanding, central banks in the UK, Eurozone and Japan are still expanding their balance sheets in an effort to assure that this economic momentum continues, Chart #8.

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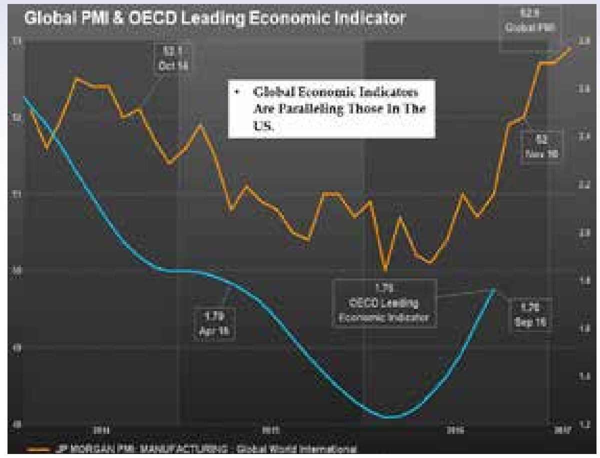

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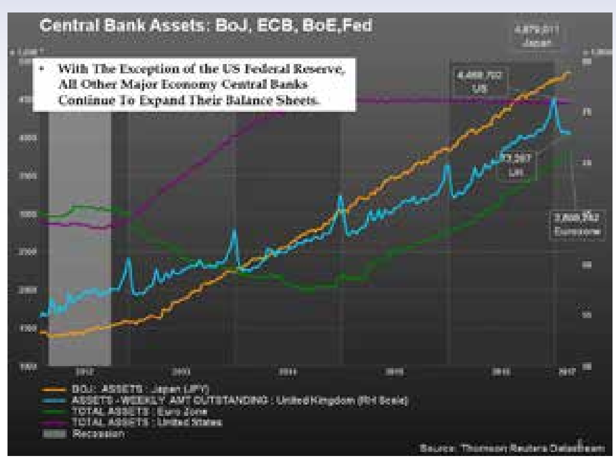

CHARTS 9-10

In the United States we continue to see solid growth but without a sharp increase in interest rates or inflation expectations both of which have been confined to a fairly narrow band since December, Chart #9. Since the beginning of the year cyclically sensitive companies have outperformed more defensive oriented stocks, Chart #10. This has been caused primarily by expectations that Trump's economic policies will generate more growth and inflation. Since January, however, these expectations have been tempered by the realization that many of his proposals such as lower corporate tax rates and infrastructure spending may not be as timely or as comprehensive as investors had been anticipating. This is the reason that inflation expectations and interest rates have been subdued and, as you can see in Chart #10, defensive sectors which act like bond substitutes have actually out performed cyclical sectors since the 30th of January.

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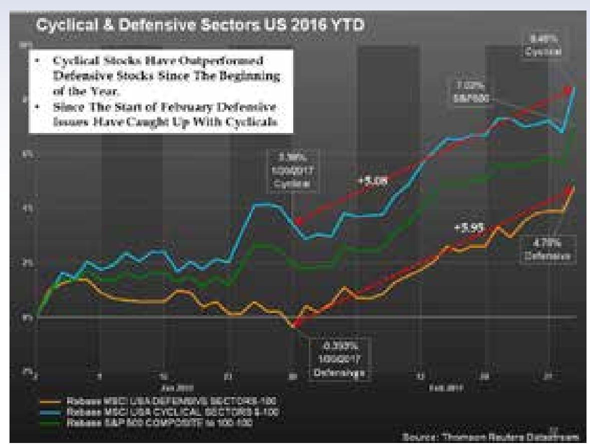

CHART 11

In closing, we still feel that the S&P500 remains slightly undervalued as we show in Chart #11. Financial stresses, as represented by the dashed red line, remain near historic lows; inflation expectations and interest rates are quiescent; economic indicators on the whole are positive; and, globally, central banks continue to remain very accommodative.

Please consult with your financial advisor if you would like to discuss how the above topics might impact your portfolio.

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