Trust Matters by David Helscher

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If you had slept through the first quarter of this year, upon waking you might have thought not much had happened. The stock markets were about where they were and bond yields did not exhibit much change from year end 2015. For those of you who stayed awake and attentive, you would probably stare at them and wonder where they had been. They had missed all the volatility, a plunge of over 10% in stock indices, then the the rebound.

In the U.S., we had experienced another first quarter soft patch, like the past several years, but with many positive fundamentals to sustain growth for the rest of the year. The housing sector continues to grow, consumer balance sheets appear in good shape and government spending should add some additional growth. Corporate revenues and earnings have declined, in part related to energy companies. Core inflation is slowly moving toward the Fed's target rate and payroll employment continues to advance. The Fed views global developments as near term risks to the continued domestic recovery.

For the Eurozone, recovery continues in unspectacular fashion and inflation remains muted. The European Central Bank's current stimulus policy, including negative interest rates, appears to be having a small positive effect. Still, this region is facing the Brexit vote in June and it is likely that the Greek debt problem will grab some headlines this summer. Brexit might interrupt the strongest forecast of expansion of any of the G7 countries in the U.K., but assuming a vote to stay, some rebound may come later in the year.

China has added some additional stimulus to reverse declining growth, but sustainability of the real estate recovery is suspect. Regulatory measures have been added to curb capital outflows. The combination has stemmed fears of a hard landing or repeat of the yuan devaluation. The goal is still to re-balance the economy toward internal consumption, but official growth numbers have been met with some skepticism.

And then we come to Japan and efforts to reflate their economy. Recent actions by that country's finance ministers confused global investors. Reform efforts have encountered some serious headwinds. To date, monetary policy, including negative interest rates, alone has been insufficient. Business confidence has faltered some, gross domestic product will struggle to grow and inflation is expected to be flat for the year.

The U.S. dollar has backed off some from its recent run up against other major currencies. Softer growth during the first quarter and the Fed backing off some on raising interest rates has moved the dollar somewhat lower recently. The dollar is still up against most other currencies for the past several years. So maybe there is a vacation buy at some of the destinations mentioned above. You can take along your sleepy friend, who might not notice.