Market Update & Economic Outlook

July 2017

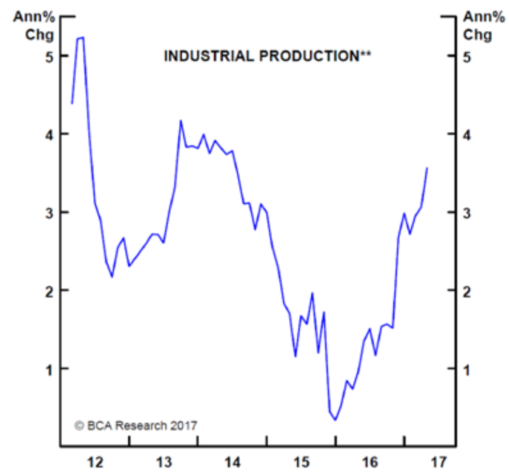
Economic Recovery Gathers Pace Globally…

The improvement in key indicators of global economic growth that began in the first quarter of 2016 continued apace through the first half of 2017. In response to strengthening economic fundamentals, global equity markets have rallied strongly over the past year; the MSCI All-Country World Index has risen nearly twenty percent in U.S. dollar terms during the twelve-month period ending June 30.

The broadening of the economic recovery beyond the United States to international economies, developed and emerging, has been a notably positive feature of the recent acceleration in global economic momentum. The result has been a period of broad-based gains across global equity markets, both domestic and international, for the first time in several years.

Prior to the past year, the global economic recovery was narrow from a geographic perspective with the U.S. leading and the rest of the world lagging. The unique and persistent challenges facing Europe, Japan, and developing markets had proved a persistent headwind to global economic growth accelerating. However, the headwinds facing international markets have been easing in recent quarters.

As shown in the chart to the right, global industrial production slowed meaningfully from 2012 to 2015 due to a combination of weakness in international economies and broad-based declines in commodity prices. Since early 2016, however, global industrial production has rebounded strongly driven in large part by the recovery in economic fundamentals across both domestic and international economies and capital markets.



We anticipate the recent improvement in economic activity will continue in the second half of the year and should remain supportive of global equity markets. Most notable, the global corporate earnings picture remains strong as earnings continue to rise and surprise to the upside. Further, despite renewed softness in commodity prices in recent months, especially oil, global economic activity has remained resilient and upbeat. We expect this resilience is indicative of the impact of lower energy prices beginning to positively impacting consumer spending on a global basis.

Freedom Capital
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Authored by the Freedom Capital Management Strategies® Investment Committee

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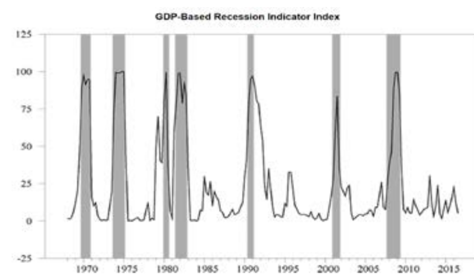
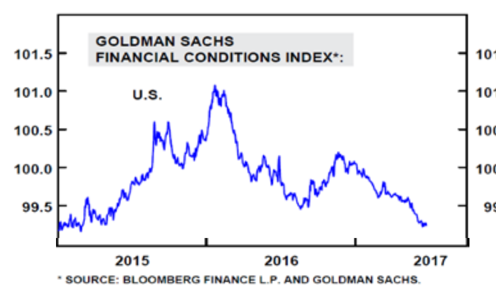
…But Are We Overdue for a Recession and/or Market Correction?

We have entered the ninth year of the U.S. economic recovery and equity bull market that began in 2009, and investors are beginning to question whether the inevitable end of the "good times" is near. We are monitoring the market environment closely for signs of stress as the current recovery is one of the longest on record since World War II. However, the facts that U.S. equity markets are at record highs and the current recovery has been one of the most extended in recent history do not in themselves portend the end. While we do not possess a crystal ball regarding the future, we do closely track three indicators that have historically been associated with the onset of bear markets: rising risk of recession, restrictive monetary policy, and/or extended valuations. While we remain cognizant of and continue to monitor the ever-present and continually evolving risks facing investors, we feel the global economic and capital market backdrop remains constructive for investors as we enter the second half of the year.

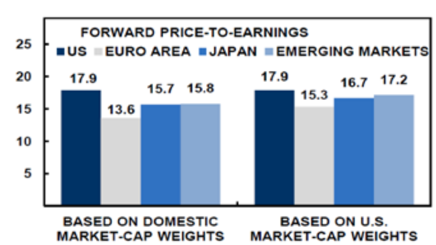
- **Recession Risk** – We feel the near-term risk of recession remains low based on the outlook for economic growth described earlier. The recession indicator produced by the Federal Reserve Bank of Atlanta (see right) also suggests that the risk of recession remains low based on current economic conditions.



- **Monetary Policy** – Although the Federal Reserve has slowly begun to raise interest rates, U.S. financial conditions have continued to ease in 2017 (see right). Internationally, the European Central Bank and the Bank of Japan are likely to maintain highly accommodative monetary policies. During periods of abundant liquidity, equity markets are typically resilient.



- **Valuations** – According to BCA Research, valuations in U.S. equity markets have become somewhat extended compared to international markets but have yet to reach levels typically associated with a market bubble.



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