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Vice President

"By The Way"

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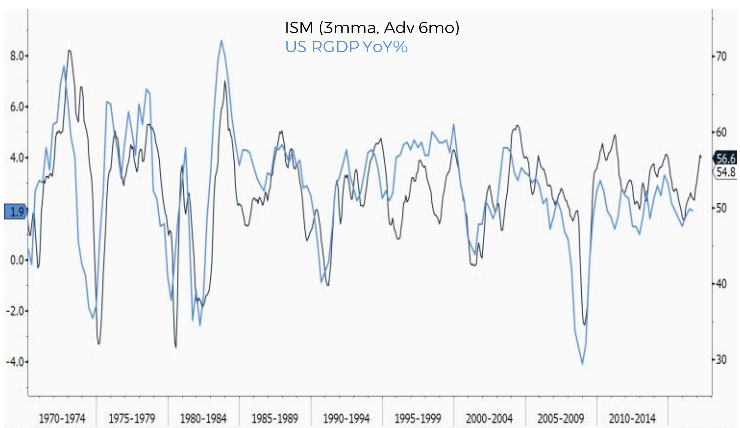
"Soft data" and "hard data" are the buzzwords which seem to be currently in vogue within the investment community. Soft data are the survey numbers that attempt to forecast where we are headed. Examples would be: The Purchasing Managers Index (PMI), The Consumer Confidence Index. The hard data follows and tells us what actually happened; think GDP, CPI & consumer spending. We have repeatedly used soft data as a tool in our forecasting, and over the longer term it has proved very useful in predicting the direction of the economy (see chart). Currently though, in the U.S. first quarter, there has been a divergence as PMI's and consumer confidence remained strong, but real GDP growth was reported at only 0.7% (QoQ) and consumer spending at 0.3%, the lowest level since 2009.



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The gap between the soft and hard data will need to be resolved one way or another, and we will be monitoring all reports in an attempt to decipher which direction the economy will take. Given our belief in the predictive value of the soft data, we favor the more positive view that there will be better economic growth in the second half of 2017 and on into 2018. The April U.S. manufacturing PMI came in at 54.8, down from a peak of 57.7, but that still reflects strong expansion and a moderation was to be expected from such high levels. In addition, global economics are also reporting strong PMIs, giving us more cause to feel confident about economic growth. As examples; the Eurozone was at 56.7; the U.K. 57.3; Canada 55.9; and China 51.2. Growth will be dependent, of course, on the Trump administration successfully implementing at least some of its policies of infrastructure spending, tax cuts and deregulation. Suffice to say, there are more reasons to be concerned today than 6 months ago, but not yet near to causing us to change our bullish longer term view.

I continue to make every effort to separate Donald Trump the person from Donald Trump the President. My hope has been that whatever his failings on a personal level, he could still provide credible leadership and constructive policies. He seems hell-bent with his off-the-wall pronouncements, and policy U-turns to make me reconsider my position. I am particularly losing sleep over his handling of the North Korea situation. Nevertheless, there are some signs of progress, most recently it was encouraging to see delivery of a budget that was a compromise among Republicans, Democrats and the White House. However, that budget is only effective until October when, along with the expiring debt ceiling, the real war may be fought. Stay tuned.

The French election looks to be won by Emanuel Macron which is market positive and keeps the European Union together for the time being. But while Macron is the preferred candidate, he is still an outsider. His party was only formed in 2016 and remarkably the French Parliament of 517 members includes only 3 who are aligned with either candidate. “Throw the bums out” continues to be a voter mantra globally. President Trump benefitted from such a mindset last November, but if he can’t fulfill more of his promises he may find out that he is the “bum”. It is only 18 months until the mid-term congressional elections, and it is worth noting that the party of the sitting President has lost seats in 5 of the last 6 mid-term elections.

The S&P 500 continues in a consolidation pattern within the bullish long term trend, and if we are correct about economic growth, the breakout will be to the upside. We continue to see relative out-performance by European equities, given an improving economic outlook and decreasing political concerns. I recently heard an old investment adage that fits the current situation; “growth solves all problems”. We continue to believe it will.

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