MARKET Insights

Webster Private Bank®

August 2017

Climbing the Wall of Worry

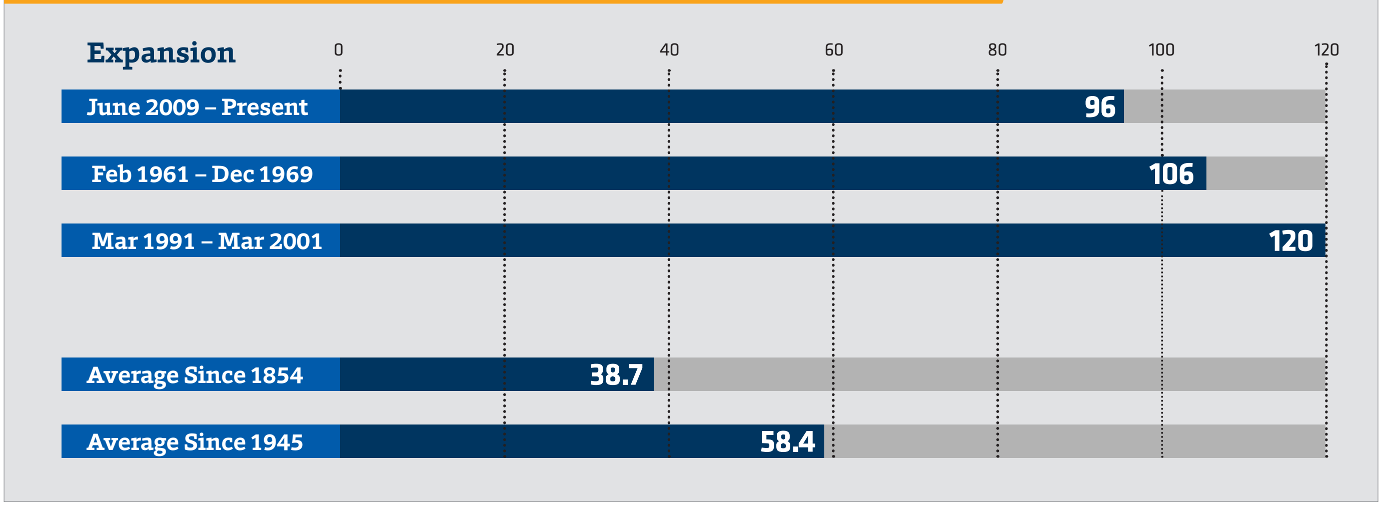
The summer has painted a portrait of two nations: one riveted by political strife, partisanship and gridlock; the other blessed with steady prosperity, high employment, low inflation and record-high household wealth.

The political kabuki in Washington DC appears to have little bearing on the private sector this year, as the US economy continues to achieve notable milestones. The current economic expansion that began in June 2009 has surpassed eight years of continuous growth. US GDP grew **+2.6%** in the second quarter of the year and, at $17 trillion, is **+13%** higher than the previous peak in the summer of 2007. This places the current eight-year expansion among the top three on record, far ahead of the post-war average of 58 months. Economic fundamentals still remain steady and strong.

CORPORATE EARNINGS in the second quarter confirmed the ongoing resiliency of the US economy. As of July 31st, with the majority reporting earnings, the combined growth rate for S&P 500 companies was **+9.1%**. This compares favorably versus the expected **+6.5%** earnings growth rate forecast as of June 30th. Ten of the eleven major sectors posted positive earnings increases, with particular upside surprises by Industrials and Financials. Consumer Discretionary was the only decliner, down **-1.0%**. The improved earnings of corporate America have been achieved not primarily by cost-cutting or share buybacks.

> *"The S&P 500 index hit a record high of 2,484 on July 27th in response to the good earnings news this season."*

LONGEST ECONOMIC EXPANSIONS VS. LONG-TERM AVERAGES



Source: National Bureau of Economic Research (nber.org)

Top-line revenue increased to a **+5.2%** annual growth rate during the second quarter as well. As if on cue, the S&P 500 index hit a record high of **2,484** on July 27th in response to the good earnings news this season.

Q2 EARNINGS GROWTH	Annual Rate
S&P 500 Companies	+9.1%
Energy	322.8%
Technology	12.9%
Financials	10.7%
Materials	7.7%
Industrials	6.7%
Real Estate	6.2%
Telecom	4.8%
Healthcare	4.4%
Consumer Staples	3.4%
Utilities	0.4%
Consumer Discretionary	-1.0%

Source: FactSet, "Earnings Insight," July 28.

IN SUMMARY:

What This Means for Investors

As we have maintained all year, we hold overweight allocations to technology, industrial and financial companies in client portfolios with individual stock positions. We continue to avoid "low volatility" companies in the utilities, telecom or consumer staples sectors that appear to offer safe dividends but trade at historically rich prices for their modest income growth.

In a similar vein, we have avoided interest rate risk in client fixed income allocations by reducing the maturity profile of portfolios, avoiding nominal government bonds and re-allocating some proceeds to floating rate debt that can potentially profit from unexpected increases in interest rates.

With global economic and business growth improving, we are avoiding the risks of historically "safe" investments that currently offer little upside and may suffer significantly capital losses in a higher interest rate environment.

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