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First Quarter 2017: Tempered Global Economic Growth Broadening

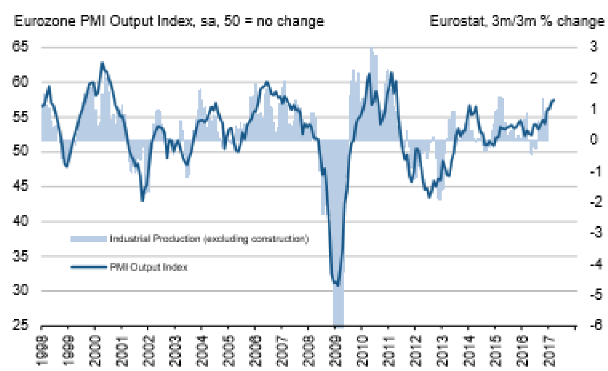
2017 has begun with generally positive economic data points, particularly if we compare them with the last two years. The corporate profit outlook has brightened with U.S. 2016 fourth quarter after-tax corporate profits rising a healthy 22.3% year on year. Adding icing to the cake, European earnings are finally growing after six long, difficult years. First quarter returns reflect favorably on the improved economic conditions. Thank you again to Eaton Vance's Monthly Monitor for the numbers that follow.

U.S. stock indices had a positive quarter overall, with the S&P 500 returning 6.1% and the Russell 2000 returning a more modest 2.5%. Meanwhile, bond indices fared respectably with the **Barclays U.S. Aggregate** returning 0.8%, the **U.S. Corporate Investment Grade** up 1.2%, and the **BofAML High Yield Index** up 2.7% to further narrow the spread to quality.

The **U.S. Dollar** gave back some of its recent gains, declining 1.3% against the Euro (spot basis) for the quarter. European economic growth is surprising to the upside. Commodities, which staged a post-Trump election rally moved back into negative territory with **Bloomberg Commodity Index** down 2.3% for the quarter. Brent Crude led the way down at -11.4% for the quarter. In contrast to the overall commodities complex, **Industrial Metals and Precious Metals**, which did well in 2016, gained another 7.6% and 9.8% respectively.

The developed markets **MSCI EAFE Index** was up a strong 7.3%, as European data is confirming an upswing in economic activity. Foreign bonds turned in a solid gain, with the **Bloomberg Barclays Global Aggregate (Ex-U.S.)** up 2.5% for the quarter. The **MSCI Emerging Markets Index** continued its noteworthy 2016 gain to add on another 11.5%. In spite of these impressive gains, emerging markets are well behind the longer-term gains (3, 5, and 10 year) of the major U.S. indices, as well as the MSCI World.

Below, we have included a chart, courtesy of IHS Markit, which shows the steady improvement in the Eurozone's economic indicators. The upturn in the eurozone manufacturing sector continued to gain momentum at the end of the first quarter of 2017. Rates of expansion in production and new orders are at near six-month highs.



Sources: IHS Markit, Eurostat

The Markit U.S. Manufacturing PMI also remains in positive territory, but did ease to 53.3 from 54.2 in March. March data pointed to further moderation in output growth, but nevertheless still in expansionary territory (above 50).

At this juncture, the global economy continues in an expansionary phase, and the data we are watching does not suggest an impending recession. That being said the inflationary data points, high absolute financial asset valuations, demographic headwinds, and both governmental and household debt levels are noteworthy cautionary indicators. From our vantage point, to the extent global growth, which is estimated at approximately 3.4% for 2017 according to International Monetary Fund's January Economic Outlook, remains inclusive, there is potential for upside in financial assets, particularly in the "value" space.