January 2017
Volume 9, Issue 21

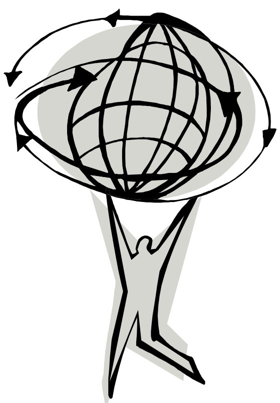
Sandpiper Capital

Gleanings

1613 Laskin Rd., #200
Virginia Beach, VA 23451

757-962-4596
Fax 757-962-5038

www.sandpiper-capital.com



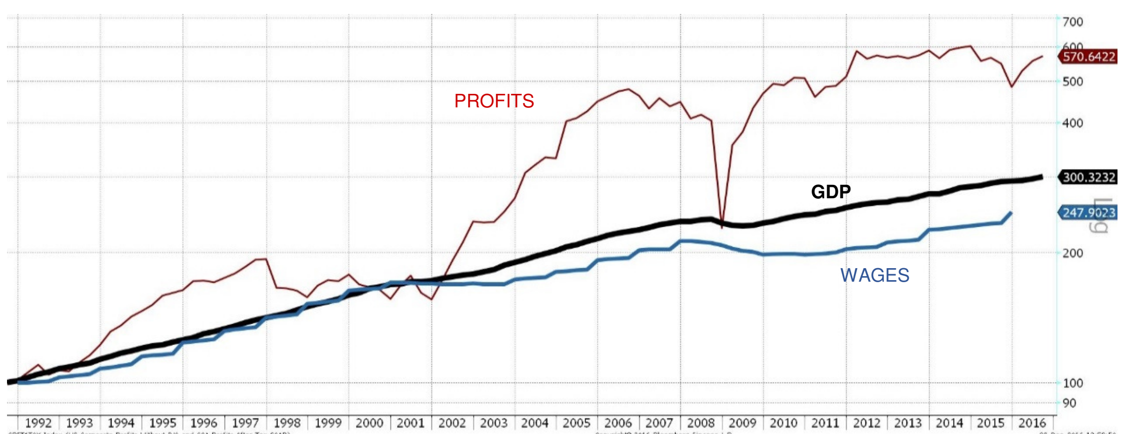
" Market participants believe that bank deregulation, a tax holiday for foreign profits, expanded shale drilling and a federally funded, privately contracted trillion dollar infrastructure effort are much more likely events than had previously been expected"

Market Returns Annually and Ten Years Ending 12/31/2016

Index	2014	2015	2016	10 Yrs
S&P 500	13.7	1.4	12	**6.9%**
ML 1-5 yr Gov't/Corp	1.5	1.1	1.6	**3.1%**
EAFE (Dev Fgn Mkts)	-4.9	-.8	1.0	**.8%**
Emerging Markets	-2.1	-14.8	11.3	**2.1%**

End of the business cycle?

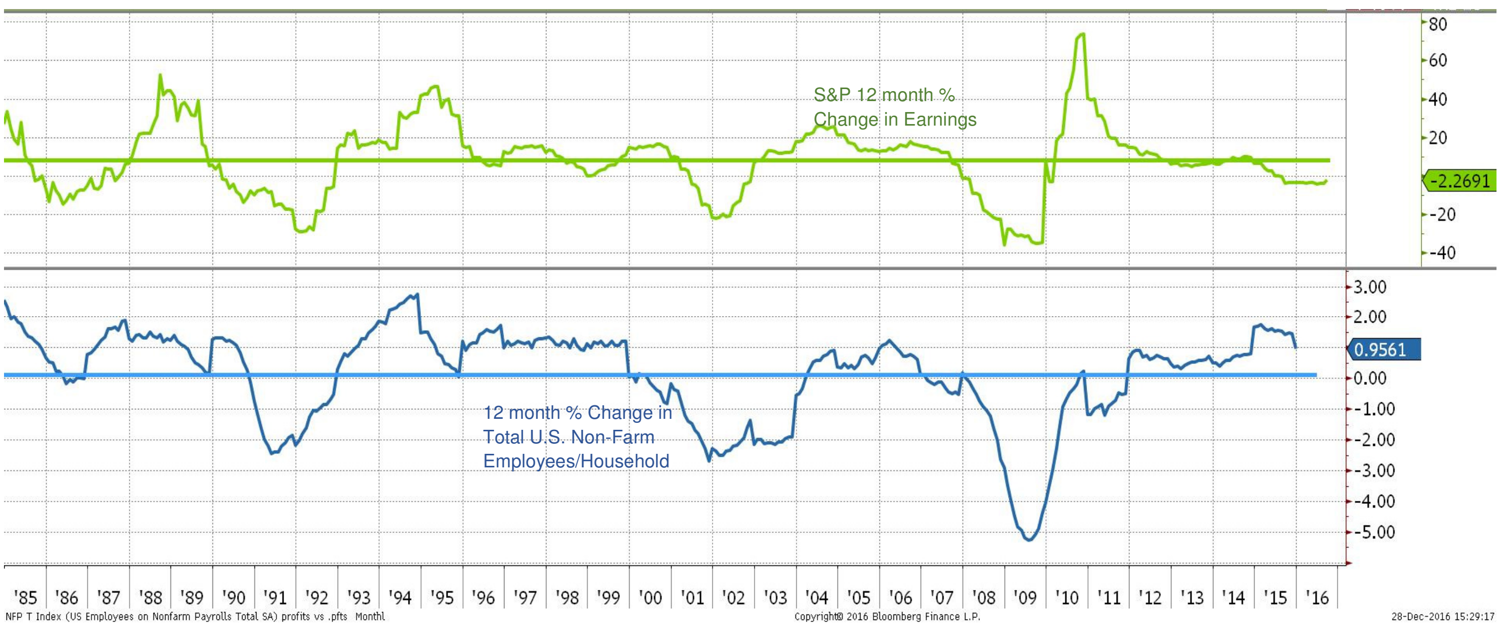
If you define the real macro-economic context of the last 36 years (starting with Reagan's election) as a time of rapidly increasing corporate cultural influence, then the Trump era is really just the logical extension of that trend. Anti-regulatory, anti-tax, anti-labor, pro-financial engineering; really pro-profit business policies have gained unprecedented popular currency as a range of U.S. institutions from the Supreme Court down to Rupert Murdoch's media empire have propagated a political-economic philosophy promoting corporations' rights to unrestrained freedom of action that has resonated with much of the American populace. The result has been an increasing degree of corporate prosperity "beyond the dreams of avarice". While the economy has tripled in size over the last 25 years, corporate profits are up by a factor of almost six. In dollar terms, that means that instead of growing by $600 billion, profits grew by $1.3 trillion or double the rate that the rest of the economy experienced over the same time frame. That has certainly been good news for stocks as growing optimism for profit growth pushed the S&P to a total return of 7:1 over the same period. We had looked at the peak profits of 2014 as an indication that perhaps the pendulum had swung too far, especially considering the political implications of the greatly diminished share of the national economy that is going to median wages, (which grew by about $700 billion less than the economy over that same 25 year period).
The Trump rally that took the market from down 1% to up 10% post-election is an indication that market participants believe that bank deregulation, a tax holiday for foreign profits, expanded shale drilling and a federally funded, privately contracted trillion dollar infrastructure effort are much more likely events than had previously been expected.

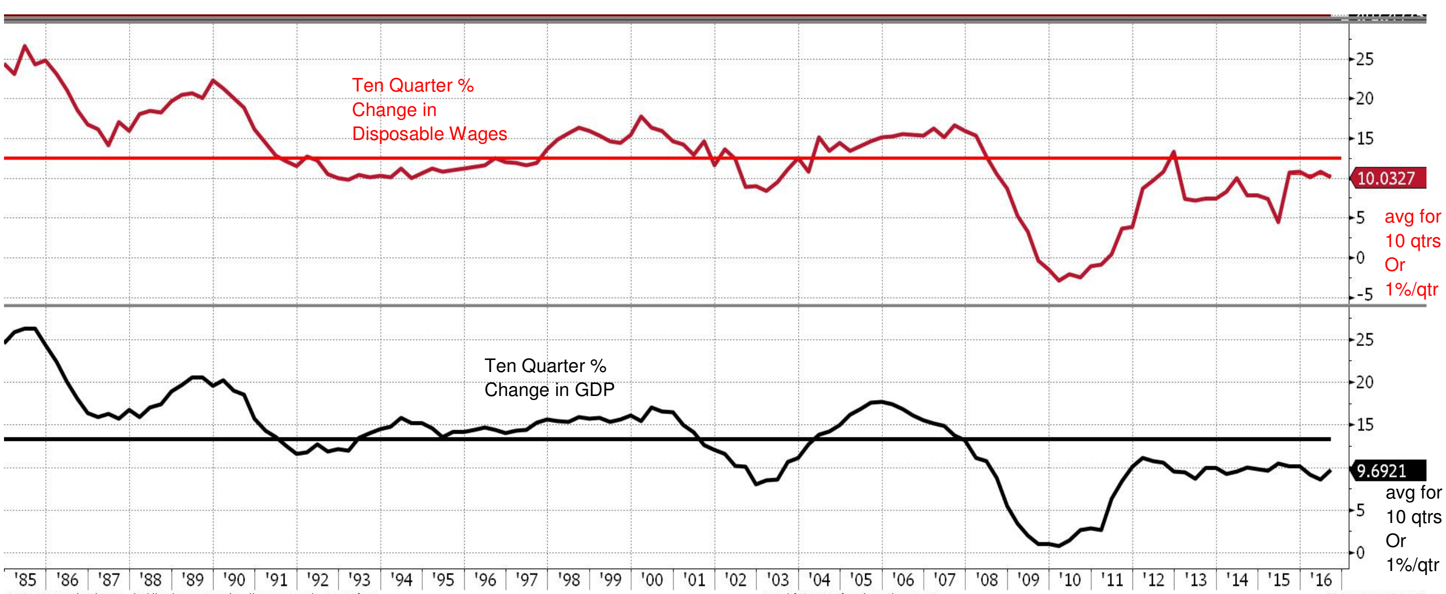


Period Ending 9-30	1991 Billions	2016 Billions (expected) actual	Difference from Expected
Gross Domestic Product	$6,218	$18,675	
Corporate Profits	$294	($885) $1,679	$794
Median Wages	$1,632	($4,847) $4,146	-$701

Earnings Drop – Layoffs – Incomes Cut - GDP Falls

The challenge to the nation from an over-emphasis on profits is that there is a feedback loop to the overall economy, (the source of all growth), when companies have complete discretion as to hiring and pay. The chart below shows the *rate of change* and the long term *trendlines* for earnings, payrolls, wages and GDP. Given pressure on earnings, companies reduce the number of employees. Because employees lack bargaining power, wages fall. As consumer spending is most of the economy and as wage earners spend a high proportion of their income, the drop in wages brings a drop in the **economy**. You'll note the persistency with which wages have stayed below trend especially since the 2008 recession. Each big round of layoffs permanently reduces the need for wage increases and also permanently reduces the growth potential of our economy.





Tom Lukic