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Sandpiper Capital

Gleanings

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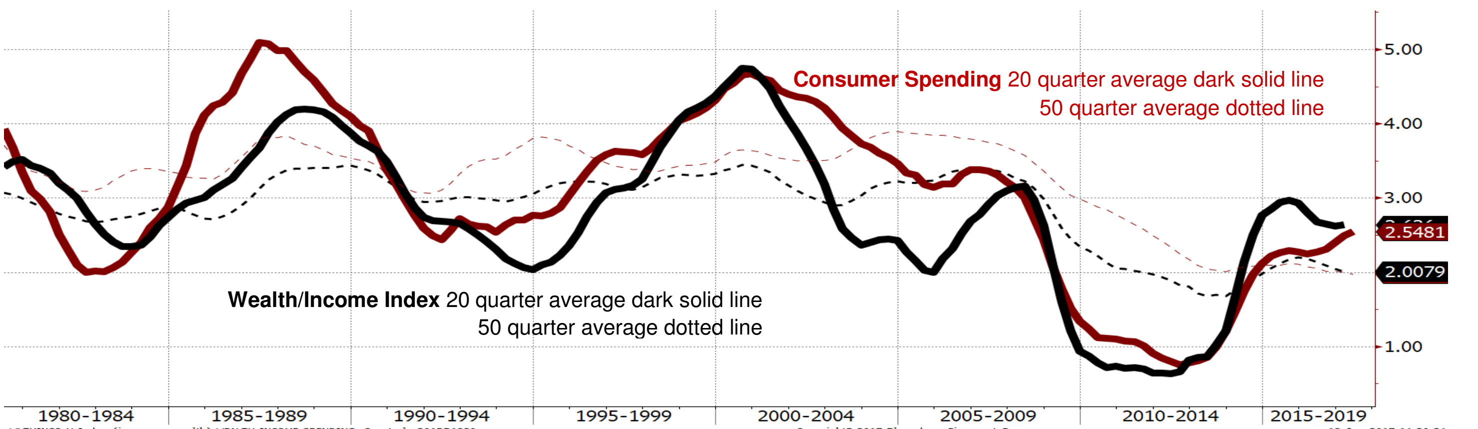
"So, for the time being, we are cautiously optimistic about the markets. We will be especially vigilant in keeping our finger on the economy's pulse however, given the risks."

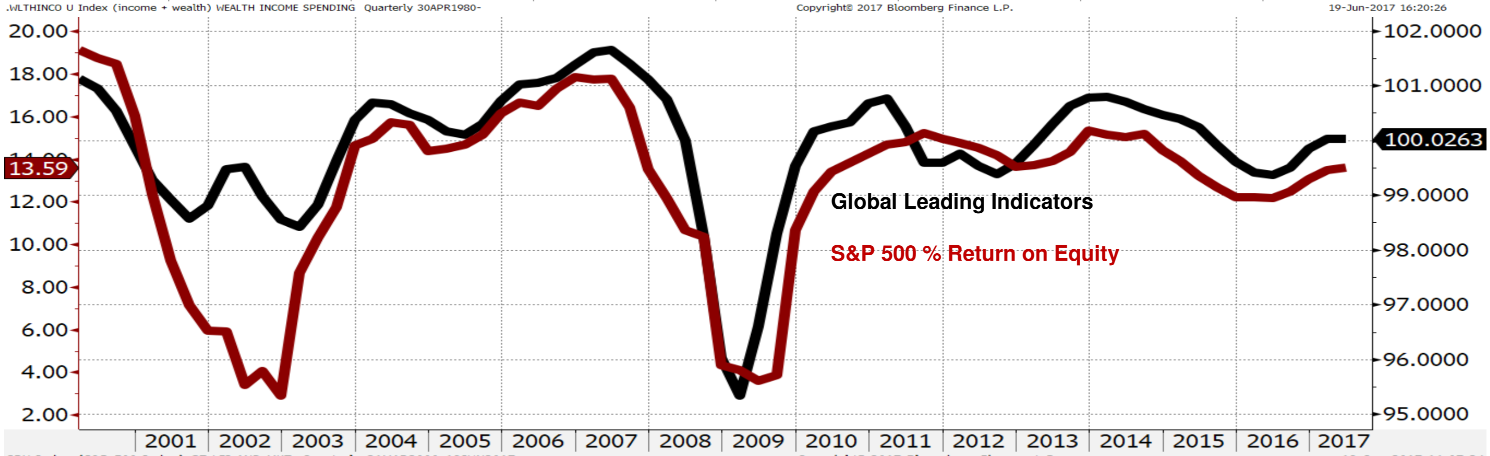
Cautiously Optimistic…

We are enjoying the sweet spot in the economic cycle when incomes and wealth have recovered enough that spending increases become more significant. Spending increases breed optimism and improved confidence inflates market values. Our assumption is that this can continue until the expansion creates shortages in skilled labor, pushing up costs. We don't see that happening as of yet, in spite of record employment numbers, but we are certainly approaching that point. In the meantime, global leading indicators have stabilized at a higher level than 2016, helping profits. While the market, by our measures is at record valuation levels, it would not be unusual to see an overshoot of "irrational exuberance" right about now. We would need retail sales to pick back up (it's been averaging under 3% growth) and second quarter profit margins to show continued improvements. Those are definite possibilities however and at this point seem more likely than not. So, for the time being, we are cautiously optimistic about the markets. We will be especially vigilant in keeping our finger on the economy's pulse however, given the risks.

Market Returns Annually and Ten Years Ending 06/30/2017

Index	2014	2015	2016	10 Yrs
S&P 500	13.7	1.4	11.9	**7.2%**
ML 1-5 yr Gov't/Corp	1.5	1.1	1.6	**3.0%**
EAFE (Dev Fgn Mkts)	-4.9	-.8	1.0	**1.1%**
Emerging Markets	-2.1	-14.8	11.5	**1.8%**





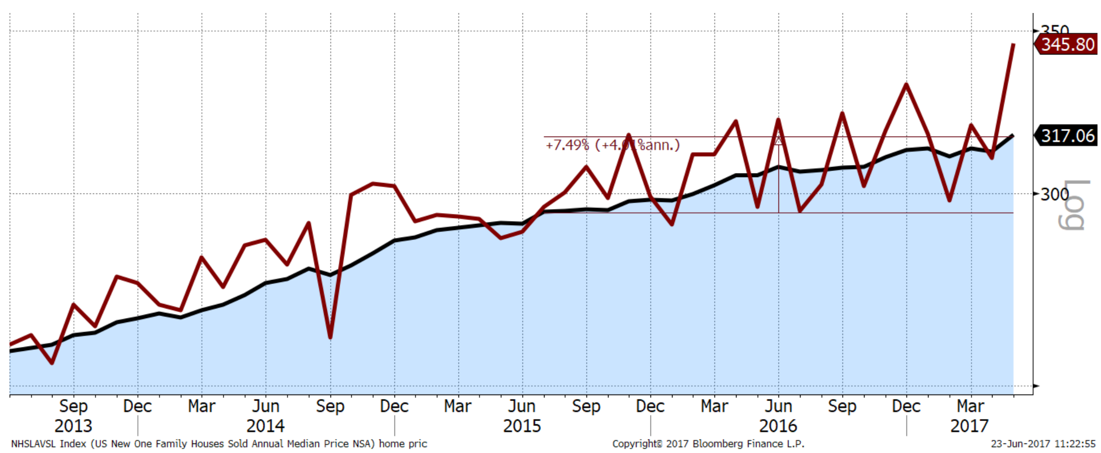
More upside to come for the economy?

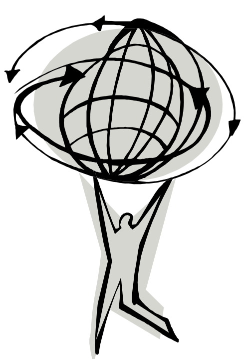
I see two recent developments that suggest that recent strength in the economy should continue and perhaps accelerate.

In the first chart below you can see median home sale prices versus a ten month moving average. While home prices have moderated to about a 4% annual rate of growth since summer of 2015, this last month's value of $345,000 is 17% higher than a year ago. Partly due to mortgage rates improving since March, the recent price strength can also be interpreted as a reflection of increasing job security helping demand. We may well see more wealth creation from this, the single largest factor for the typical US household's balance sheet, in months to come.

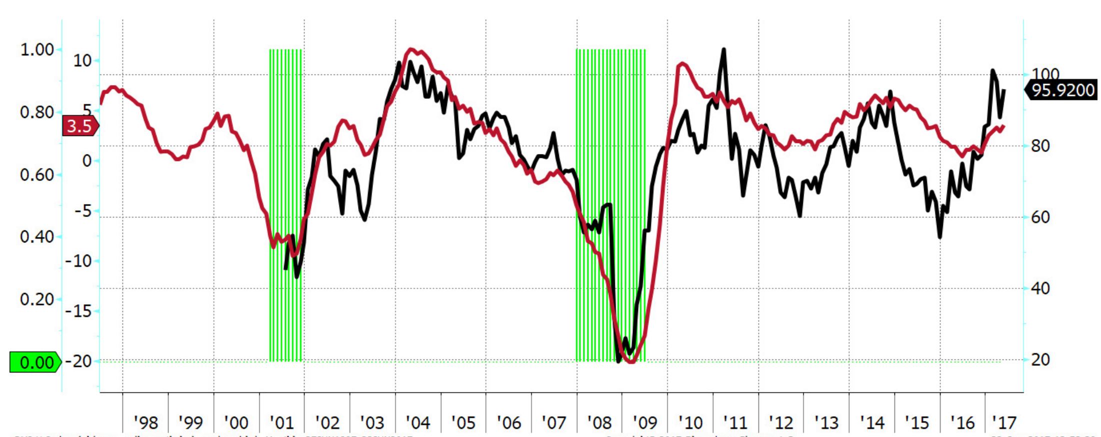
In the chart at the bottom of the page are the results of an aggregate of the results of different surveys taken by purchasing managers around the country graphed against leading economic indicators. The optimism or pessimism of their opinions generally presage changes in leading indicators by a month or two. The most recent reading as well as those of the last few months are higher than they've been since 2011. Certainly their take on things is that the likelihood of a recession is much less now than it seemed to be eighteen months ago.

Median Home Sale Price vs. Ten Month Average





Leading Indicators vs. Purchasing Managers' Index



Tom Lukic