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Sandpiper Capital

Gleanings

500 E Plume St. #109
Norfolk, VA 23510

Phone 757-962-4596
Fax 757-962-5038

www.sandpiper-capital.com

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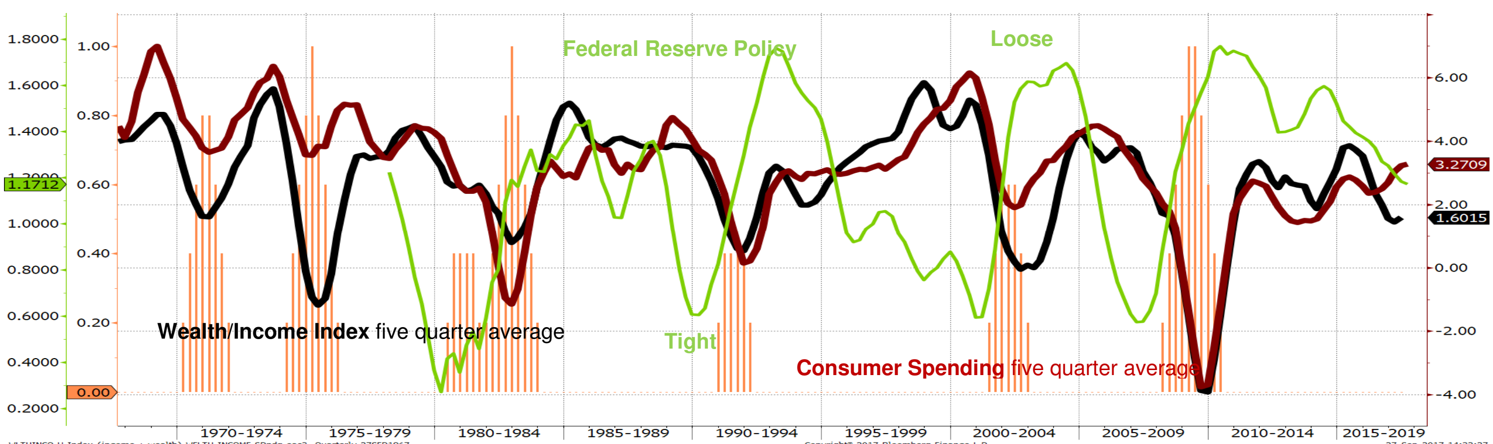
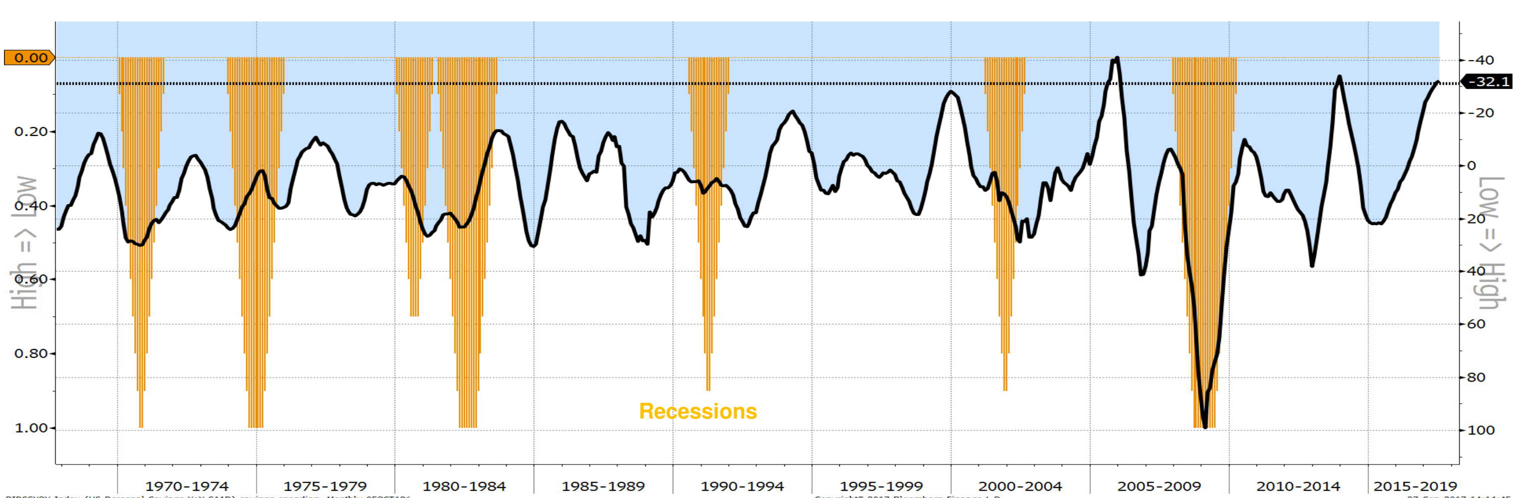
Market Returns Annually and Ten Years Ending 09/30/2017

Index	2014	2015	2016	10 Yrs
S&P 500	13.7	1.4	11.9	**7.4%**
ML 1-5 yr Gov't/Corp	1.5	1.1	1.6	**2.8%**
EAFE (Dev Fgn Mkts)	-4.9	-.8	1.0	**1.3%**
Emerging Markets	-2.1	-14.8	11.5	**1.6%**

More of the same…

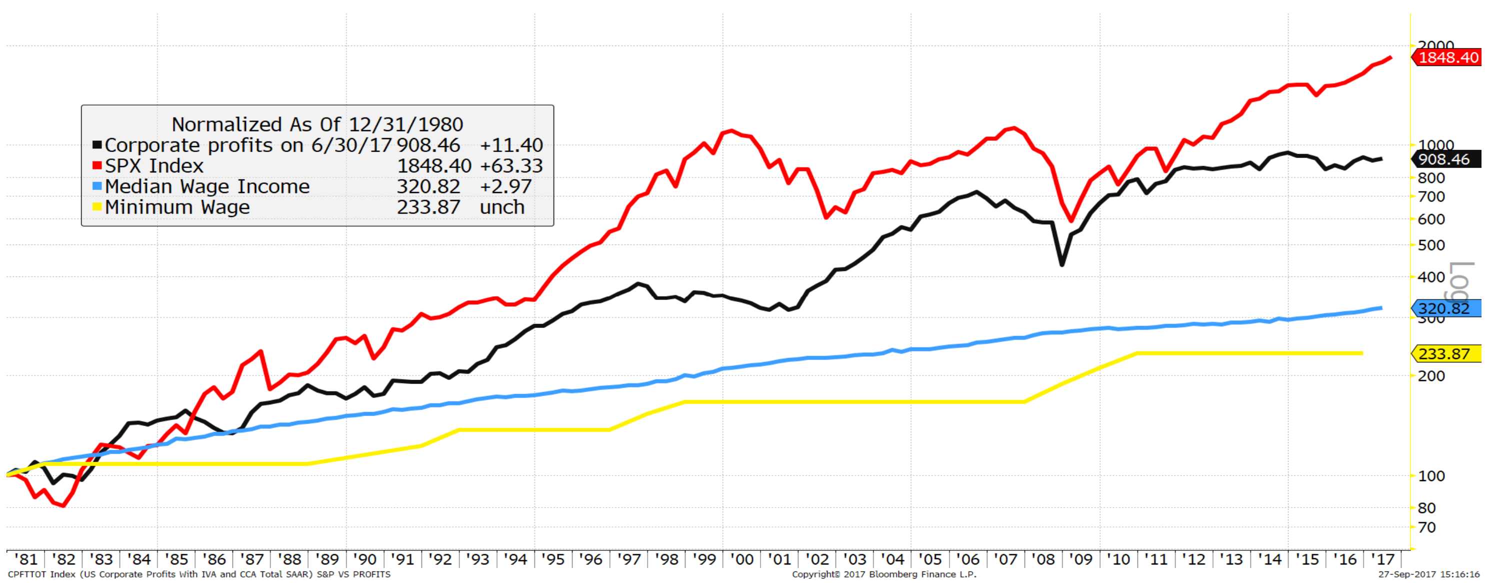
One of the easiest mistakes to make when thinking about the markets is to confuse the country's economic prospects with corporations' prospects. I have been worrying about the anemic growth that we've been seeing in both personal incomes as well, necessarily, as US GDP growth. But, while our economy can't grow if earned incomes don't, that certainly doesn't mean that profits haven't been and won't keep growing. In the chart immediately below you can see real (inflation adjusted) consumer spending growth averaging about a per cent lower over the last five quarters, at a little over 3%, than before the recession. That can be traced to consumers' income and net worth annual growth (combined and represented by the black line). If people have less money, they don't spend as much. The prospects for improved future growth are hampered by two things, however. Federal Reserve policy is changing to be more restrictive (through higher short term rates), which should slow the economy. Additionally, in the second chart, the black line that shows how much people are saving shows negative numbers (spending down savings) at a pace only seen twice before in the last fifty years. This does boost sales but only for a while.

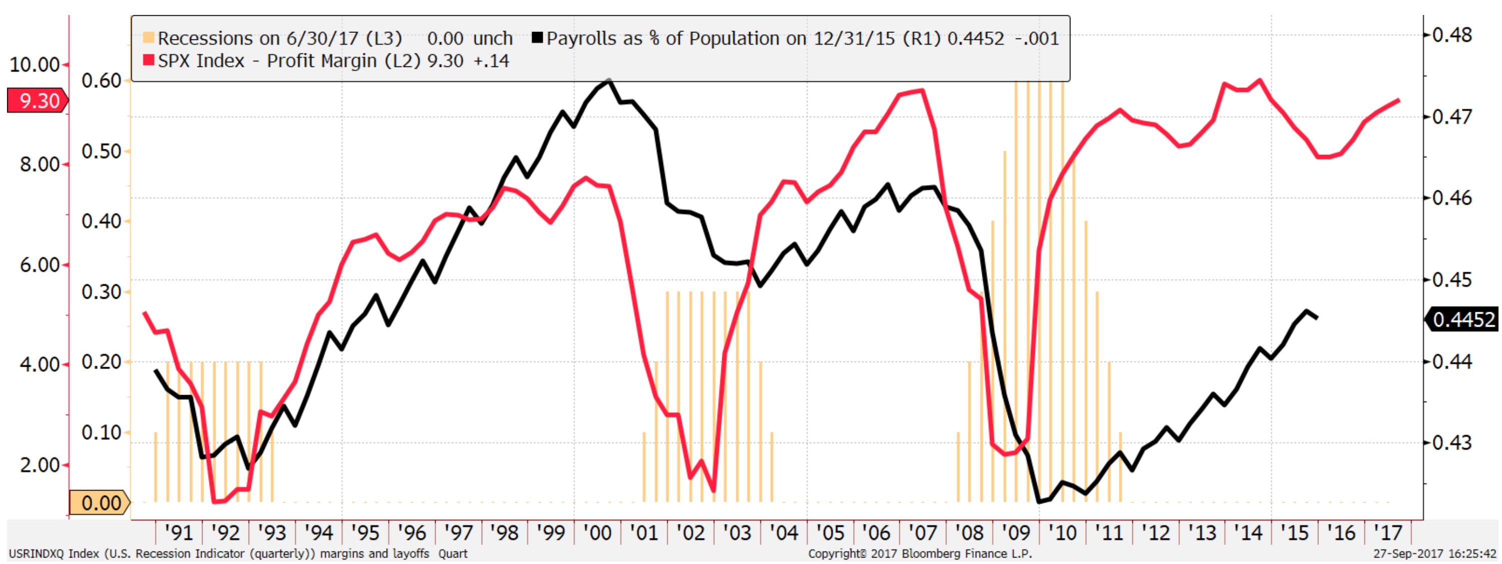




A slow economy and slow wage growth haven't meant slow growth in corporate profits or in the stock market. The steady expansion in corporate profits since 1980 has been accompanied by an even more dramatic lift in the stock market as investment in financial assets has proven to offer much greater rewards than investment in real assets. Globalization has brought exponentially greater competitive forces to the labor markets, keeping wage growth subdued and more than doubling profit margins. Over the last twenty- five years, each round of layoffs has permanently reduced the number of people on the employment rolls as a percent of the population, bringing higher and higher peaks in corporate profitability. With the prospect of regulatory rollbacks and drastic cuts in corporate tax rates, we may well see this pattern of rising profit margins continue. With fewer people working and wages stagnant however, there will continue to be unintended consequences in the diversion of dollars from peoples' bank accounts to corporate treasuries. Slow GDP growth is one. Political and social turmoil will certainly be another. A breakdown of real median *household* income changes over the last 21 years may help inform that conversation:

In 2016 $'s	**White**	**Black**	**age 35 >**	**Some College**	**College Degree**
1995 Income	**$51,800**	**$27,100**	**$40,100**	**$50,700**	**$75,600**
2016 Income	**$61,200**	**$35,400**	**$40,500**	**$47,700**	**$92,100**
% annual change	**0.80%**	**1.28%**	**0.05%**	**-0.29%**	**0.94%**





Tom Lukic