

## Market Observations September 2017

### AMID CALAMITY & CONCERN

The closing days of Summer 2017 have been turbulent. The power of nature unleashed historic calamity on the people and structures of coastal Texas and Louisiana. Economic impact reverberated across the country. Half a world away, the power of WMDs in the hands of an unpredictable owner has been on full display. The geopolitical impact echoed around the world. Amid this calamity and concern, global financial markets have displayed notable stability. The longer its absence, the louder the voices warning of a meaningful stock market decline. A review of some fundamentals can provide perspective.

### Perspective

While the statistical relationship between economic fundamentals and stock market performance is loose, trends in economic activity provide the backdrop for governmental policies, business decisions and consumer sentiment. These in turn impact stock market trends. **Chart I** shows annualized quarterly rates of change for U.S. real economic growth dating back to Hurricane Katrina. The impact on economic activity then was a slowdown in the quarter following Katrina with stronger growth in the subsequent quarter. If that pattern repeats now, real growth could fall below current forecasts for 4Q17 and rise above current forecasts for 1Q18. In any event, no recession appears in sight through 2018.

The significant impact of the Great Recession of 2008 - 2009 on U.S. private employment is shown in **Chart II**: 8.8 million jobs lost. It took six full years to return to the pre-recession employment high. Steady, monthly employment gains in this expansion have resulted in 17.2 million job gains and total private employment at an all-time high of 124.4 million.

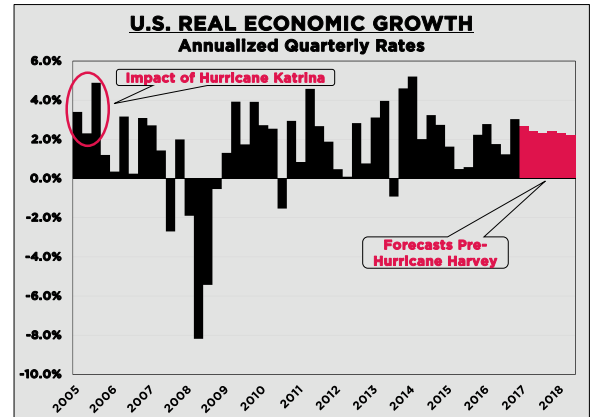
The impact of Hurricane Katrina in 2005 on the stock market was negligible as shown by the plotting of the Dow Jones Industrial Average ("DJIA") in **Chart III**. More powerful and enduring are the cyclical forces of recession and expansion. The Great Recession resulted in a significant -53.5% decline in the DJIA. Now seven years into expansion, the cumulative increase in the DJIA reached +237.8% at its recent peak. As the pattern shows, this gain was not without its interruptions amid a myriad of economic, political and geopolitical uncertainties and events.

### Investment Implications

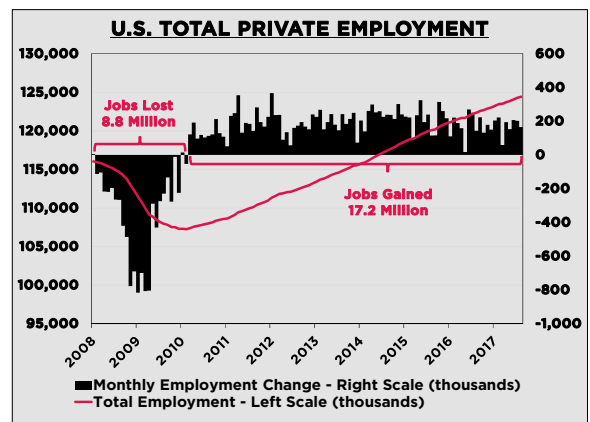
Time, collective effort and perseverance are likely antidotes for both recent calamity and ongoing concerns. While applicable to investing amid calamity and concern, portfolios at all times benefit from disciplined process and prudent diversification.



**Chart I**



**Chart II**



**Chart III**

