Hinds Financial Group, Inc.
Registered Investment Adviser

141 Union Boulevard Suite 350
Lakewood, CO 80228
P.303-985-9889
F.303-985-0146

Hinds Financial Group Quarterly Economic Outlook and Review Q1 2018

The Economy

The US economy continued on its upward trajectory, with overall growth and employment posting solid gains. The Bureau of Economic Analysis reported its third estimate of fourth quarter 2017 gross domestic product (GDP) of 2.9%, up slightly from the prior estimate, but somewhat lower than the third quarter's 3.2% reading. The employment situation also made gains, with an average of approximately 242,000 jobs added each month. At the same time, the unemployment rate remained steady at 4.1%. The Fed modified its interest rate policy by raising the federal funds rate target 25 basis points to a range of 1.50% to 1.75%. Economists expect as many as three additional increases in 2018 as inflation picks up and wage pressures accelerate. The global economic environment continues to benefit from a rebound in demand and generally accommodative monetary policies. The Eurozone economy grew at a 2.7% annual rate in the fourth quarter, well above trend. Growth in the region has been driven by ultra-accommodative monetary policy, a firming labor market, and robust domestic demand. Japan is expected to maintain its strong momentum into 2018, driven in part by revived external demand. China continued its strong growth from 2017, and experienced its first year-over-year acceleration since 2010.

Domestic Stocks

Equity markets began the year on a strong note, rising 5.7% in January, but encountered volatility in February, from which it never fully recovered. The volatility and pullback were not unexpected, as broad indices had generated consistent gains in a low-volatility environment throughout 2017, and were overdue for profit-taking. In addition, the Trump administration's tariff announcement added a reason for volatility. Against this backdrop, the S&P 500 Index finished the quarter with a loss of 0.8%. The negative quarterly return was only the second in the S&P 500 Index's past five years.

International Stocks

International stocks performed reasonably well on a relative basis, generally outpacing US equities. As in the prior quarter, European economies continue to accelerate, as domestic demand has picked up and monetary policy has remained extremely accommodative. China continues to deleverage its economy, but has recently posted strong economic growth. With that as a backdrop, international stock indices were mixed.

Bonds

The Fed ended its recent March meeting by announcing an increase of 25 basis points in the federal funds rate target from 1.50% to 1.75%. While the rate increase was expected, they also revised upward their economic and interest rate projections. The Fed increased its GDP growth estimate for 2018 from 2.5% to 2.7%, and also expects growth to be 2.4% in 2019, higher than its previous estimate of 2.1%. They also lowered estimates for unemployment for this year and going forward. The Fed is becoming somewhat more hawkish in its interest rate stance, and may become increasingly so in coming quarters as inflation begins to rise

Fixed income securities generated mostly negative total returns across the various market segments. The Bloomberg Barclays Treasury 5-7 Yr. Index declined 1.3% for the quarter. The Bloomberg Barclays U.S. Corporate 5-10 Yr. Index fell by 2.4% during the three months. High yield securities, which often follow the performance of equities, posted a modest negative return of -0.9%. Municipals were also lower, as the Bloomberg Barclays Municipal Bond Index eased by 1.1% during the quarter. Prices of non-US fixed income securities were higher in the quarter, as the Bloomberg Barclays Global Aggregate ex-U.S. Index advanced 3.6%. Emerging markets bonds suffered, with the JPM EMBI Global Index declining by 1.8%.

Outlook

The US economy is strong, and according to the consensus of economists, is primed to get even stronger. The tax cuts enacted in December—which amount to $1.5 trillion over 10 years—are only now beginning to flow through the economy, and the recent omnibus spending bill will add even more stimulus that will be felt over the next few months. Economists expect this stimulus to result in GDP growth of more than 3% this summer, job growth of 200,000 per month, and an unemployment rate declining to near 3%. Although welcome, such growth historically has not been sustainable for very long. The Trump administration's imposition of large tariffs on steel and aluminum imports also may have lingering effects on growth in the coming years. Many economists believe that the tariffs themselves may not have a significant impact, but to the extent they spur a broader trade war, growth could be adversely affected. In addition, the tariffs are a fulfillment of President Trump's generally anti-trade campaign promise, which may eventually lead to slow growth. Overall, however, the economy is still growing at an accelerated rate, and is likely to do so for the next several quarters. The risks to the positive economic outlook continue to include the potential for monetary policy missteps by the Fed, specifically, allowing inflation to rise too rapidly. Most analysts also expect the volatility that has defined the market so far this year to continue throughout the year.