STIFEL

Meriden Retirement Board
Tuesday – August 8, 2017

Overview

Equity investors spent the past month eclipsing historic index highs, as the US Congress remains frozen and the Federal Reserve Board passed on a July rate hike citing continued low inflation. While the Fed reaffirmed its intent for a continued "gradual" pace of rate increases, business investment appeared to be cooling after an optimistic start of the year buoyed by expectations of a pro-growth Washington agenda. Imbedded in a strong Q2 earnings season, we found indicators that forward guidance no longer assumes success or compromise on infrastructure initiatives or broad tax-reform, much less on healthcare policy. Yet US economic growth remains positive and extended, the latest employment report greatly exceeded expectations, and forecasts for recession remain well in the future. Following the posting of 2.6% GDP growth for the second quarter, Stifel strategist Barry Bannister told CNBC that equity markets most likely remain positive through mid-2018.

While consumer confidence remains high and the GDP report is hailed by the White House as evidence of economic enthusiasm, skeptics point to the downward adjustment for first quarter GDP and an annualized growth rate stalled under two percent. Little noticed, however, is a companion report from the Commerce Department: the GO (Gross Output). In 2014, the Bureau of Economic Analysis added this new measure of "total sales volume at all stages of production" to its periodic reporting on "final goods and services" (the GDP). The GO growth this year indicates far greater strength than reported by GDP, and as a leading indicator it may offer insight to Fed policy and Wall Street activity in the months ahead.

Historically, the August-to-October period presents the most concern to equity investors. Over the past thirty years, August has been US stocks' worst month for performance, frequently selling off late in the month as vacations limit trading volume and reduce liquidity. Among scheduled challenges during this quarter we note the arrival of the federal fiscal year, and the ritual standoff over raising the debt ceiling. Other years bring election jitters in the fall. But investors recall the worst market decline in our lifetime was Black Monday, Oct. 19, 1987, when the S&P 500 lost 22% in a single session. More recently, sharp selloffs have occurred in 2002, 2008, and 2015 – inviting caution for those trading the calendar.

Meriden Retirement Fund

International equities and large cap tech powered Meriden's investment accounts to open the new fiscal year, as broad averages advanced through July. The City Employees and Police/Fire funds posted 1.5% gains for the month, while the OPEB Trust gained 1.8%. Asset allocation for the City Employees funds reflected 62% in equities, 23% fixed income and cash, with 15% in alternative holdings. The Police/Fire pensions held 62/20/18. And the allocation for the OPEB account was 67/25/8.

August began with consecutive DJIA milestones, as market rotation consolidated modest gains for the portfolios. The City Employees Retirement fund value through Friday was $140.9 million, the combined Police/Fire pension fund was $104.6 million, and the OPEB Trust value reached $32.7 million.

Patrick Sheehan
Mark Hammond
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DJIA: 22,092.81
S&P 500: 2476.83
August 4, 2017

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