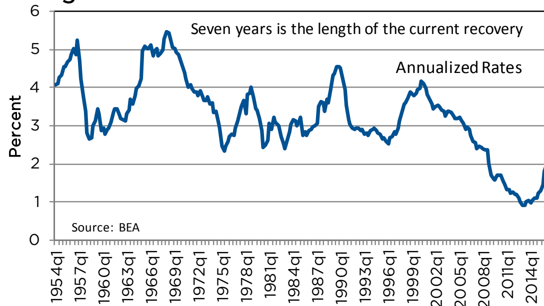
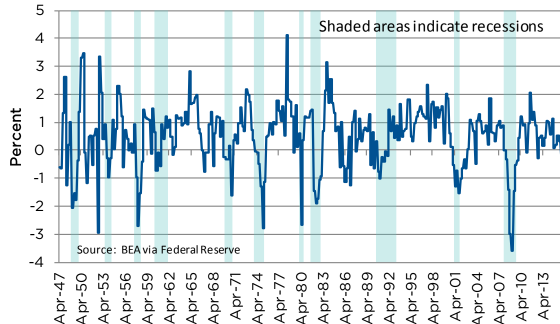
ECONOMIC REVIEW APRIL 2016

Industrial metal prices jumped sharply during April, with signs indicating elevated Chinese purchases. Prices had significantly dropped to multi-year lows in 2016. Steel prices rose along with iron ore, though neither is indicative of a Chinese infrastructure resurgence; many of the country's steel mills have idled due to oversupply, and materials purchases tend to come in waves amid favorable prices. The Treasury essentially ended the Pfizer-Allergan merger after altering inversion rules to include ownership percentages for the previous three years. In this case, because Allergan had acquired several companies over that period, its starting position would make its size too small in comparison to Pfizer to qualify as a majority foreign-domiciled corporation. Halliburton and Baker Hughes ended merger proceedings after regulators judged that the threat to competition was too great. The European Central Bank started to purchase Greek European Financial Stability Facility bonds, which were previously off limit to the bank. The purchases will help loosen capital restrictions in Greece and move the country slightly closer to a more stable economic footing. Saudi Arabia's attempt to freeze OPEC oil production fizzled after tensions with Iran rose and Russia pulled support for the deal. Oil prices rose nearly 20% in April, but absent a supply disruption, are not expected to rise significantly as additional production capacity is returning to profitability at current prices. The FCC advanced a requirement for closed-network television providers to allow third-party applications and devices in place of their own set-top boxes, which tend to lag market innovators. Apple's profits fell as smartphone market saturation left fewer growth opportunities. The removal of wireless service providers' price supports for phone purchases likely had the most impact on slowing demand. The jump in upfront consumer costs from $400 to $900 for an iPhone is a significant hurdle to overcome and maintain sales volumes.

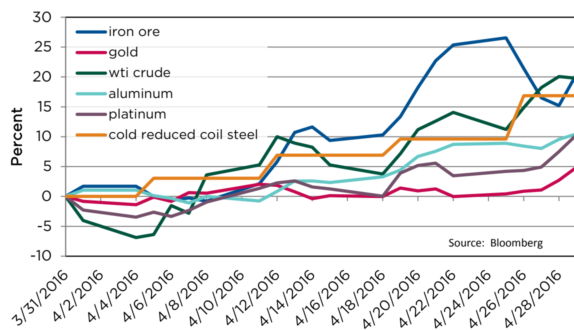
Rolling 7-Year GDP Growth Rate



Nonresidential Investment GDP Contribution



Commodities Extend Gains



Market Returns

As of April 30, 2016

	April	3 Months	YTD
S&P 500	0.4%	7.1%	1.7%
Russell 1000 Value	2.1%	9.4%	3.8%
Russell 1000 Growth	-0.9%	5.7%	-0.2%
Russell 2000	1.6%	9.7%	0.0%
MSCI EAFE	2.9%	7.6%	-0.2%
Emerging Markets	0.5%	13.7%	6.3%
Barclays Agg	0.4%	2.0%	3.4%
3-Month T-Bills	0.0%	0.1%	0.1%

U.S. GDP grew at an annual rate of 0.5% in the first quarter. Growing segments reflect the shift of the U.S. economy from one of manufacturing to one of services and consumer consumption. Positive contributors to GDP were recreational goods, food, healthcare and housing construction. Growth in these segments mirrors labor force growth, with restaurant, retail and hospital employment expanding faster than other segments. With a rotation to lower-wage jobs for workers without college degrees, the divide between upper and lower-wage earners continued to widen. Negative contributors to GDP were autos, transportation, business investment and exports. The oil production slowdown is catching up to manufacturers as major railroad operators slashed orders for new railcars and idled a significant percentage of their rolling stock. Weaker overseas demand for U.S. goods cut 0.27% from GDP and impacted manufacturers, agriculture and transports most heavily. Business investment decreased GDP by 0.76%, and was the first consecutive quarterly contraction since 2009.

In the post-war (WWII) period, average yearly GDP growth was 3.3%. In the current post-recession period (Q2 2009 to current), growth has averaged 2.0%, and surpassed 3% over rolling annual periods only once in Q3 2010. Although the U.S. and other countries have faced significant financial disruptions over the decades, such as the Asian liquidity crisis, savings and loan collapse, oil embargo and other crises, only the current "recovery" has failed to produce even one annual GDP growth rate above the long-term rate. Apart from additional regulatory hurdles, including Sarbanes-Oxley, Dodd-Frank and environmental/climate practices, the current period is unique in its heft of central bank interventions. The longer that interventions last, the more dependent investors become on their continuation. The injection of trillions into securities markets has failed to provide a sustainable and meaningful economic spark, yet has added massive debts that will diminish future growth. Economic growth is dependent upon risk-taking from entrepreneurs and lenders with forward-looking projections. Each resource devoted to reporting and verifying past activities and accounting leaves businesses less capital for growth. Increased government spending has not proven effective in returning economies to strong, sustainable growth. An increasing amount of government spending globally is pension/retirement payments, especially in developed countries whose populations are rapidly aging. The wider-scope issues that economies face are that central bank intervention is dampening and constricting economic risk-taking, government spending is increasingly devoted to transfer payments that do not create growth capital and debts are increasing too fast, given current and forecasted economic growth rates.

Puerto Rico sank into further economic distress as it is in line to miss several billion dollars in debt payments over the next several months. The government has negotiated with banks and hedge funds to take haircuts in order to minimize total losses. A media campaign by pro- and non-bankruptcy forces went national, with only Congress able to legislate a formal bankruptcy. High poverty and high government spending give the island territory little chance to meet its debt obligations.

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