

Macro Update

June 5, 2018

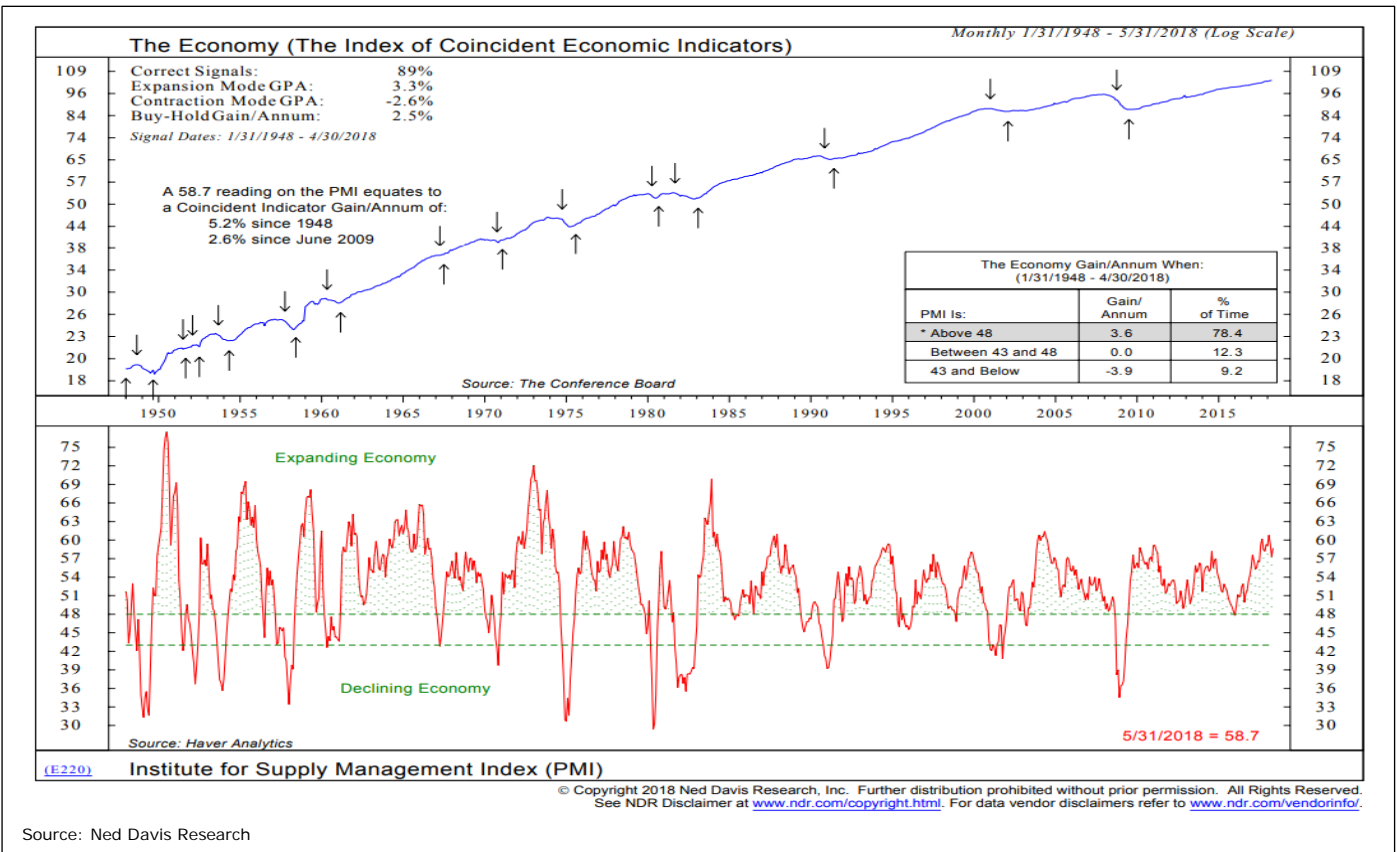


Please refer to Appendix – Important Disclosures.

Strong Growth Helping Support Earnings Expectations

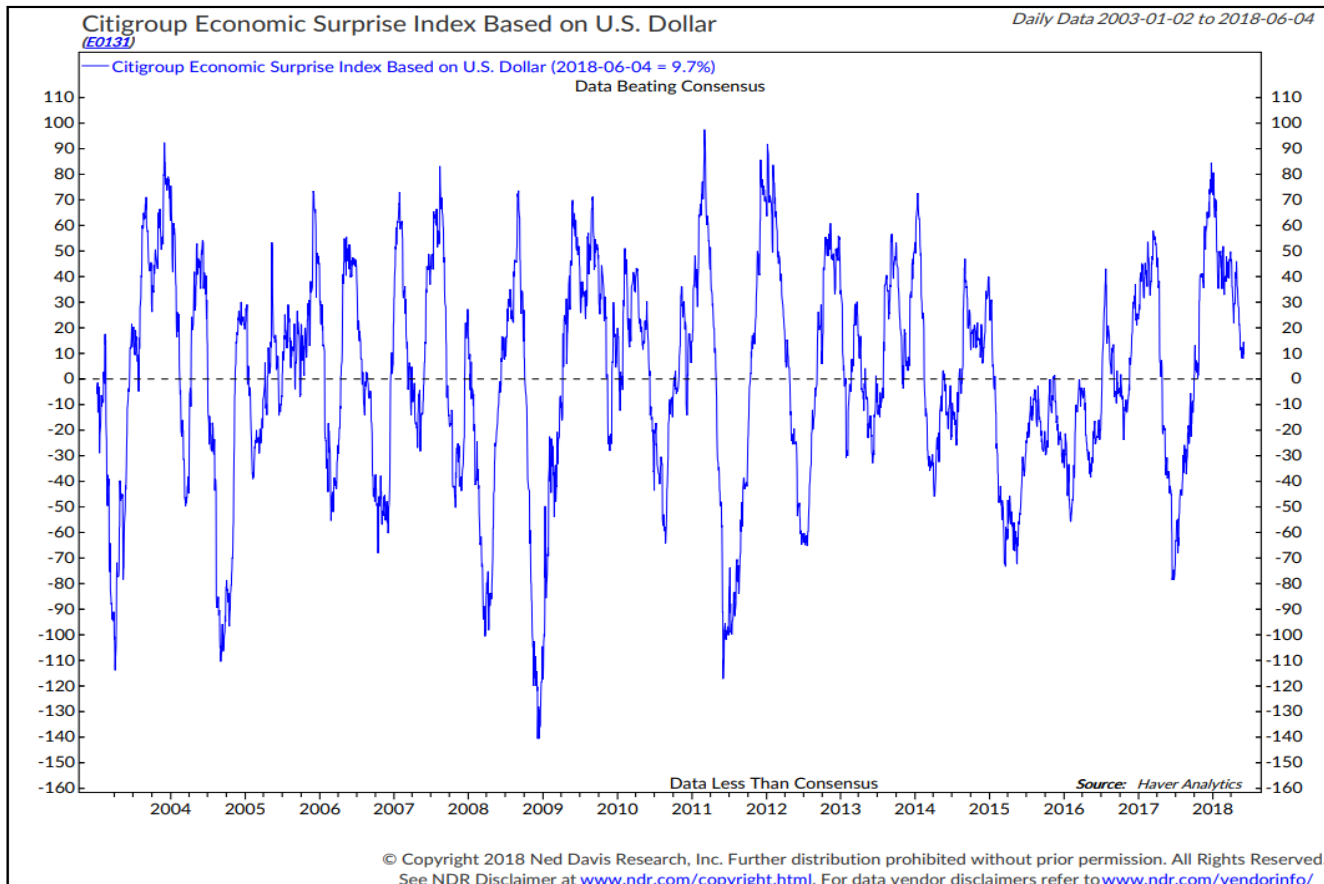
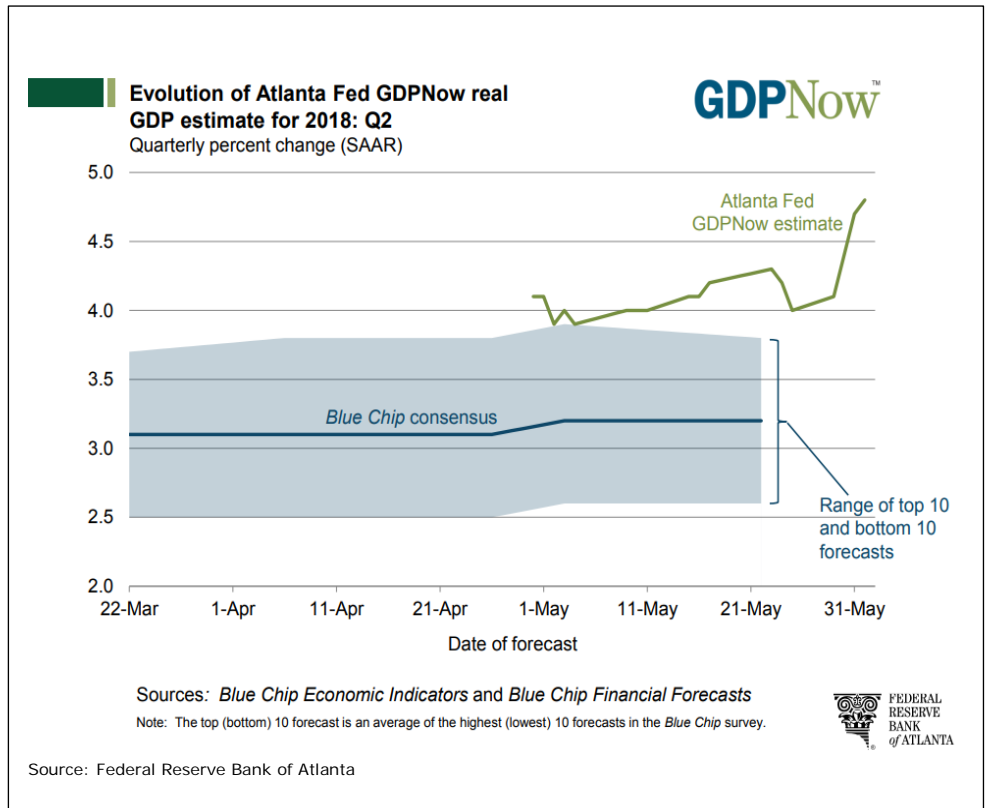
Key Takeaways: Recent data shows the economy is on firm footing and expectations for second-quarter growth are robust. Watch for upside economic surprises as evidence of the sustainability of these expectations. Second-quarter earnings estimates are not moving meaningfully higher, but just by not falling, they are breaking a pattern of downward revisions that goes back to 2011.

Recent economic data supports the view expressed in last week's [Macro Update](#) that the economic recovery is continuing and that growth is accelerating. The monthly jobs reports showed the economy added 223,000 jobs in May and the unemployment rate dropped to 3.8%, the lowest level in nearly two decades (March 2000). A broader measure of unemployment dropped to its lowest level since May 2001, and the year change in both hourly and weekly earnings for production and non-supervisory workers moved to new cycle highs. The ISM purchasing managers index increased to 58.7 in May (the first increase in three months) and 16 of 18 manufacturing industries reported growth, both of which are indicators of above-average economic growth. One chink is that global growth has shown some signs of slowing. The global manufacturing PMI has fallen in four of the last five months and is at a nine-month low. The good news is that even as global growth has slowed, it remains above its long-term average.



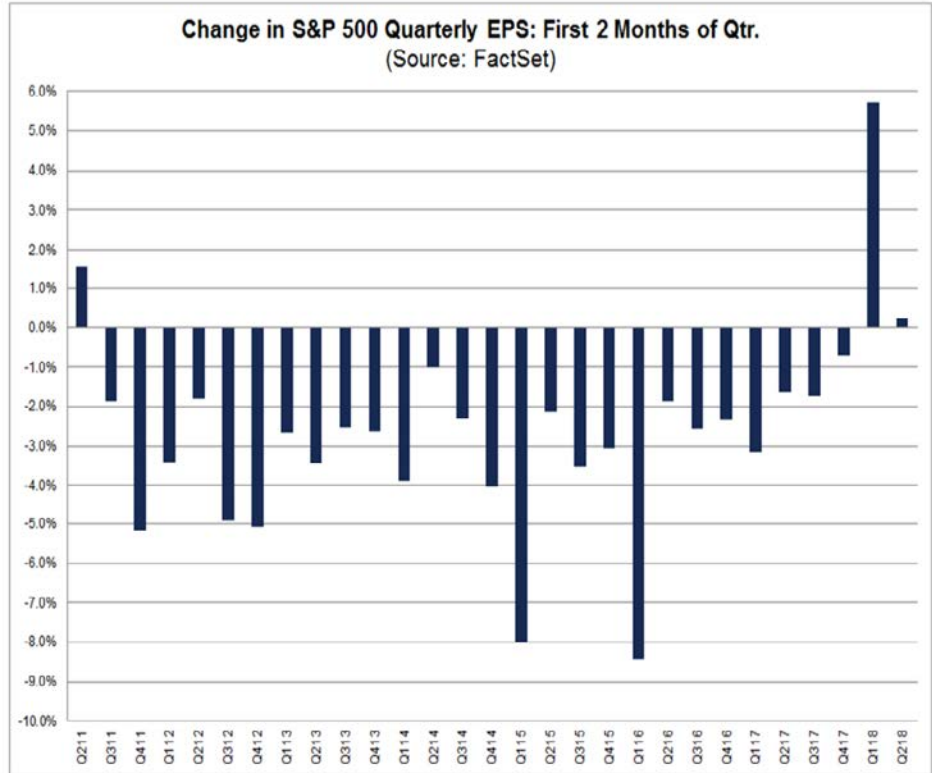
Recognizing some of this strength, the Atlanta Fed's GDPNow model is currently projecting growth of 4.8% in the second quarter. This is well above the consensus forecast of growth closer to 3.2%. In contrast to the GDPNow model for the first quarter, expectations for the second quarter have been moving higher as we have moved through the quarter. The first-quarter estimate peaked above 4% early in that quarter and drifted lower over the course of the quarter.

Working against the GDPNow model in the first quarter was economic data that was struggling to meet expectations. If the economic surprise index is able to start rising again, that could be evidence of renewed economic momentum.

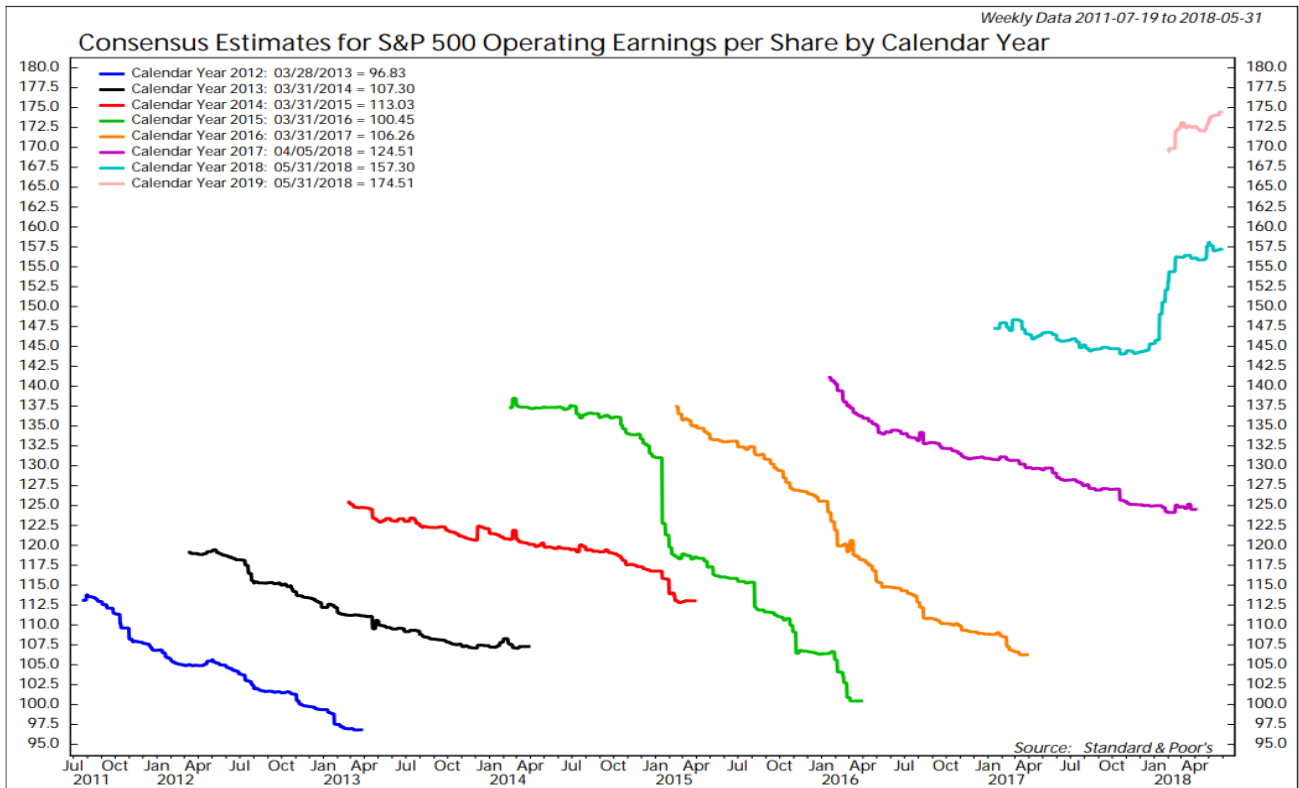


Source: Ned Davis Research

Building economic momentum could help provide a tailwind for earnings. A modest step in the right direction has already occurred with second-quarter earnings expectations. Except for the first quarter of this year where estimates were driven by the passage of the tax reform bill, the trend going back to 2011 is for earnings expectations to fall over the first two months of the quarter. Earnings expectations for the current quarter have moved slightly higher over the past two months. Upside economic surprise and an improving growth back drop could help decisively change the trend in earnings estimates on both a quarterly and yearly basis. With expectations for this year and next elevated, earnings could use all the help they can get.



Source: FactSet



Source: Standard & Poor's

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Source: Ned Davis Research

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