

News & Views: Five Charts On the US Prospective Investors Should See

THE BOSTON COMPANY

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The recent price action in markets has seen contagion from further afield spill over and hit US indices, a correction that is not necessarily warranted, says George Saffaye, portfolio strategist at The Boston Company Asset Management.¹

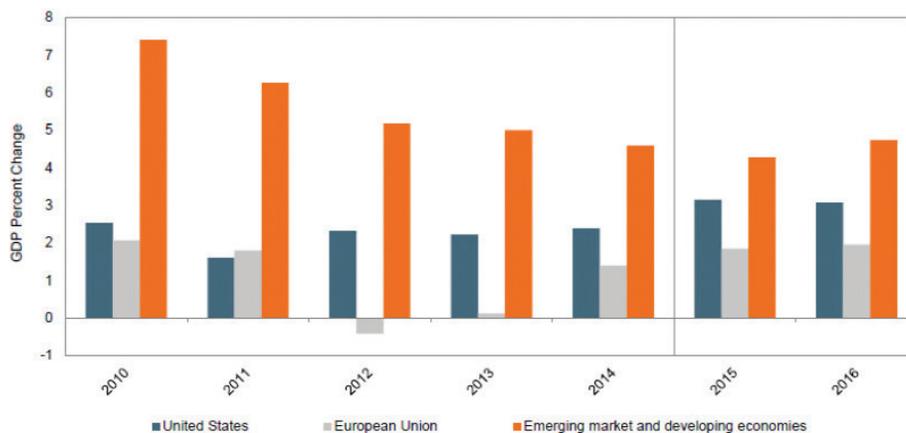
He says China is contributing a lot of noise right now and the knock on impact has hurt a lot of markets so far this year.

In the US, while corporate profit forecasts have been revised down, most corporates are in fact reporting in excess of the estimates, he points out. Saffaye believes the US price action is due more to the global backdrop and in particular the growth slowdown in China and related markets.

“We need to see something from an economic or fundamental corporate standpoint that tells us the US is challenged and so far we are not being presented with that. Valuation perspective will always come back to play and when you are looking at price to earnings you must make sure you have the right context: The S&P 500 has a variety of sectors that require differentiated valuation and growth expectations. If a company is going to deliver on the earnings part of PE ratio then you may have to be willing to pay for it.” Here are five charts Saffaye believes should assuage investors’ fears about the US recovery being spun off course...

Global GDP Growth Expectations Remain Positive

Gross Domestic Product (Percent Change)
2010 - 2016*



*2015 & 2016 data points reflect IMF estimates.
Source: International Monetary Fund Statistical Database as at April 2015.

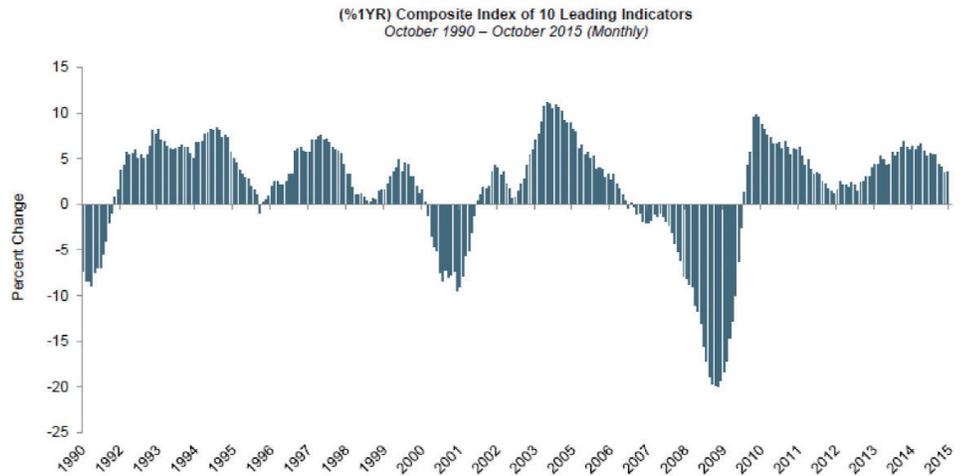
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“Declining GDP growth is being led by China and there are a lot of unknowns about how the world will look with slower growth coming out of emerging market and developing economies. There are always questions around the data coming out of China. In Europe I think ECB President Mario Draghi did the right thing to reinforce the message of doing ‘everything it takes’ to get GDP growth back on track and that is starting to show.

“Meanwhile in the US there is trend growth. It has not accelerated very rapidly and that is different from what investors have been expecting. We have gone from being a sprinter to a marathon runner. There is no inflation and I don’t see much down the road with commodity prices where they are. So this period of slow and moderate growth can go further.”

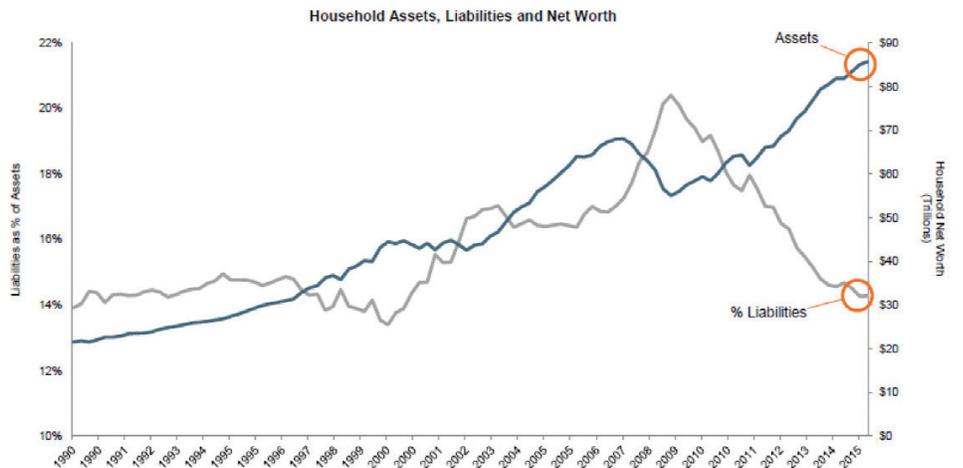
US Leading Economic Indicators Solidly Positive



Source: FactSet Research Systems.

“Looking at a chart of 10 leading indicators in the US, it is still above 0 and remains in positive territory, so the economy is still in an optimistic state.

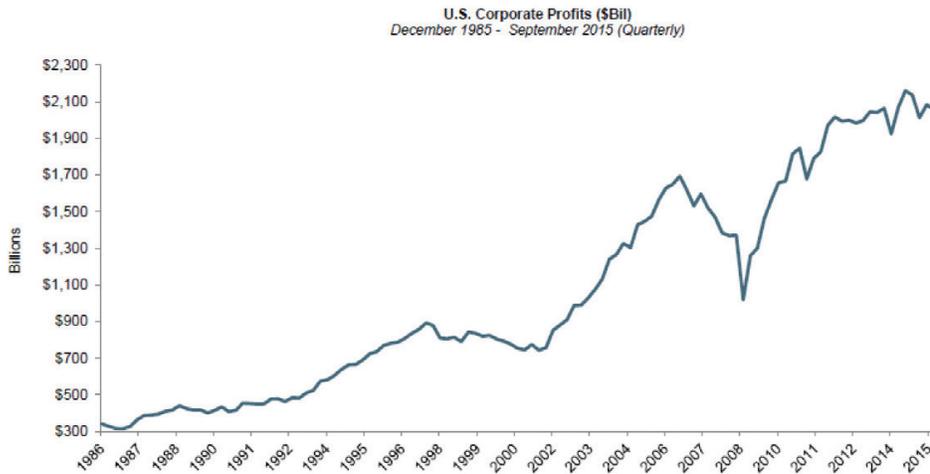
US Consumer Balance Sheet In Excellent Condition



Source: Federal Reserve, as of April 2015.

“The US is a consumption driven economy and unemployment is down at 5%, which is technically full employment in the US. Since the financial crisis consumers have changed their mentality, cleaned up their balance sheets, taken off debt, while assets have risen. They may spend smarter but they are still spending.”

US Corporate Profits Remain Solid

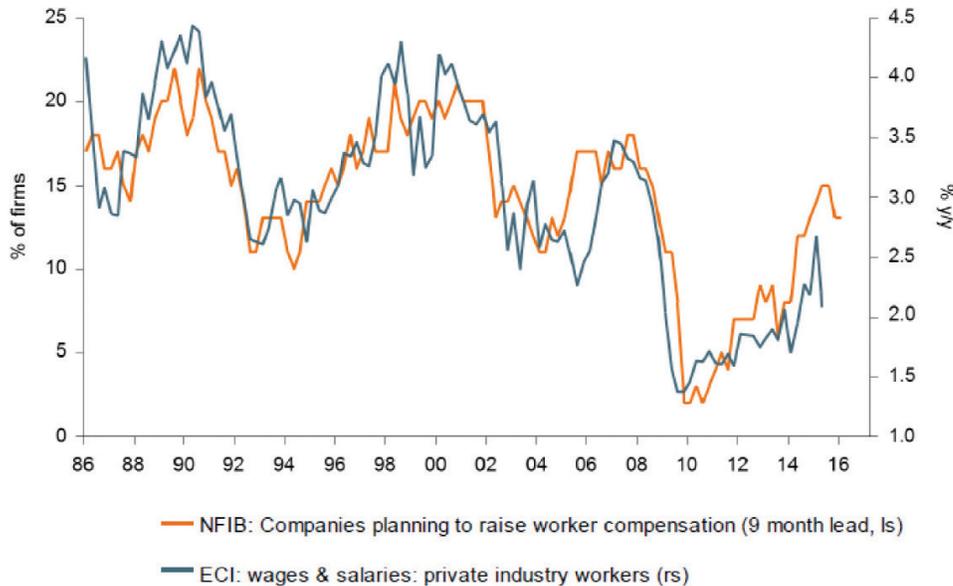


Source: FactSet Research Systems.

“US corporate profits remain relatively robust and have been in a rising trend throughout a period that has covered seven presidential elections and four different party changes (December 1985 to September 2015). So while politics have always had a say in how the country is run and which economic policies are put in place, companies have always found a way to grow.”

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As We Near “Full Employment,” Wages Should Move Higher



Source: Deutsche Bank, October 2015.

“Companies are also planning to raise worker compensation and workers are expecting it. This has already started coming through in higher end wage groups and is starting to filter into middle and lower-end wage groups too.”

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