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U.S. equity markets experienced an unusually strong showing in the first quarter of 2017, with a 6.1% increase, as measured by the S&P 500 index. Bond markets were also up, 0.8% according to the Barclays Aggregate Bond Index, as prices rose and yields fell even as the U.S. Federal Reserve raised interest rates. The desire for a safe haven investment overcame the Fed rate rise.

Business optimism surged after the Trump election; now many are wondering if the optimism got ahead of reality and was misplaced. Hard data is replacing euphoria. The failure of health care reform and other strategic missteps have given rise to doubts about the ability of President Trump to deliver on his promises. Economists and legislators remain skeptical.

Business lending is muted and capital spending has slowed. Estimates for GDP growth are being lowered, retail sales have been weak, and inflation fell in March.

To regain the optimism of the election, Trump and his team need to deliver on tax reform and deregulation, and they will need bipartisan cooperation to achieve this.

Despite the overall economic trends, according to Zacks, corporate earnings are off to a solid start for the first quarter of the year. For Q1 as a whole, combining the actual results from the 181 S&P 500 members that have reported with estimates from the still-to-come 319 companies, total earnings are expected to be up 9.7% on 5.9% higher revenues, with Finance, Technology, Industrial Products, and Basic Materials expected to come out with double-digit earnings growth. The picture emerging from the Q1 earnings season is one of accelerating growth, with earnings and revenue growth for the period tracking above the levels we have been seeing in other recent periods.

With earnings growth solid, even maintaining our current price earnings ratio, we should see an increase in the market averages. Of course there will be volatility, not all of it because of fundamentals but some because of headlines.

As an example, investors held their breath going into the recent French elections. Patient investors were rewarded with the centrist candidate Emmanuel Macron emerging as the leading vote getter. Maureen Le Pen, the rightest candidate, came in a distant second, barely ahead of the third place candidate. Le Pen is a populist economic nationalist who promised to take France out of the EU and return France to the French franc instead of the euro, which would have meant the almost certain demise of the European union. All of Europe was concerned about the possible unraveling of the

European Union, which, along with NATO, has provided seventy years of unprecedented peace in Europe. On the first trading day after the election, the major indexes surged around the globe and then surged again the following day. If the pollsters are correct, Macron should prevail.

However, we do not need to be reminded that the pollsters have been wrong before.

Call if you have any questions.

Best,

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Rutherford Investment Management