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**Client newsletter - July 2017**

***Market Muddles on***

***We have a new puppy!***

The U.S. economy muddles on, neither too hot nor too cold, but no Goldilocks either. The market continues its ascent, barely, with the economy growing about the same as it did under President Obama. Gross Domestic Product growth inches up toward 2%, meager by any measure, and not the 3-4% promised by candidate Trump. The ISM Purchasing Managers Index of Manufacturing, a key indicator of growth, grew to 57.8% in June, a 2.9% increase over May and its highest level in three years. The PMI services index increased for the 90$^{th}$ consecutive month, to 57.4%, a 0.5% increase over May's level. The recent jobs report was positive, up 3.7% in the manufacturing sector over May, but jobs growth overall remains at about the level where it was during the Obama administration.

The new President promised accelerated GDP growth through infrastructure spending and reduced regulation. Some of that has occurred, and we have seen a positive impact on bank stocks. Still, we have not seen the robust growth that the market was expecting. Now, we have an expectation of higher interest rates and some tightening of monetary supply. What can we expect from the markets as the recovery looks ever longer in the tooth?

Expectations seem to be moderating and the Trump agenda seems to have run aground. After an initial flurry of executive orders seemingly reversing everything that President Obama had done, the Trump agenda appears to have ground to a halt. With health care reform stalled, the President needs to move on to the next part of his agenda, but time is running out. He needs some legislation put on his desk to sign, but that does not seem to be happening. Even infrastructure investment, which should have bi-partisan support, is still only talked about. The President seems to have a knack for picking fights and alienating even our friends. He has withdrawn from the Pacific trade agreement, opening the door to Chinese dominance of the Pacific. He reopened the North American free trade agreement and insists on building a wall on the U.S. Mexican border. History has shown that walls do not benefit commerce or the growth of international trade and stability. Reference the Berlin wall (which ran the length of the Iron Curtain), or the Maginot line, or the Great Wall of China. Trump recently attended the Group of Twenty meeting in Hamburg, which the U.S. usually dominates, and was completely ostracized. Nineteen of the twenty countries vowed to continue the Paris climate accords; the U.S did not. The final note on the conference papered over the serious rupture between the U.S. and the Group of Twenty about protectionism, with the U.S. insisting that the other countries are causing a trade deficit that is bad for the U.S. and advocating protective tariffs, specifically for steel. In an earlier meeting with the South Korean President, another strong ally of the U.S., the President scolded the South Korean President for the U.S. budget deficit, which, of course, is not connected to the trade deficit; the budget deficit having nothing to do with trade, and the trade deficit being a net plus for world trade and world peace.

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Nevertheless, the U.S. markets continue their way up, with the S&P 500 Index up 9.05% through June 30, led by the tech and healthcare sectors. But could the economy just run out of steam? So far, it has not given an indication of doing that. It is just growing slowly. The best indicator of the market future is the profitability of companies, and companies seem to be doing fine, if not great. So then we have to look at some policy accident. Although frequently forecast, policy accidents are seldom foretold. Today accidents could come from a variety of places:  China, where debt is out of control, never a good sign; North Korea, where the Chinese and Russians are having a good time pulling Trump's chain and playing his personality to cause him to make some colossal policy blunder; and domestically where we have the Federal Reserve tightening and raising interest rates.

The U.S. economy continues to be the most robust and resilient and the place to keep our assets. As interest rates rise, bonds and other fixed income investments decline in value.  Our portfolios are diversified amongst stock in companies which are growing quickly and those which have historically been more stable in downturns. Remain fully invested and avoid reading the headlines.

About the puppy.  We got an eight week old puppy that was about 4 pounds and in one month has grown to seven pounds.  She is impetuous, chews on everything, and makes a mess where she shouldn't. She gets into unnecessary trouble. We hope she matures, but in the meantime she is a constant source of busy amusement!

Call if you have any questions.

Best,

**William D. Rutherford**
**Rutherford Investment Management**