INVESTMENT PERSPECTIVES

March 2017

Capital Research and Management Company, a registered investment advisory firm, recently published it's 2017 Outlook Investment Insights. The report describes a world in transition. Here is a summary of some of the key insights provided in this report.

- The result of the U.S. presidential election - and the earlier BREXIT vote in the U.K. - in part reflect potential populist sentiment that appears to be challenging the decades-long march towards globalization.

- The uncertainty brought on by this political shift, paired with muted economic growth across much of the world, leaves many economies vulnerable to shocks. What's more, recognizing that aggressive central bank stimulus may have reached its limits, investors must consider the potential consequences of years of such policies.

- That said, the global economy continues along its low-growth path, but there are a number of bright spots. In the U.S., despite political uncertainty, a strengthening consumer is driving stronger growth. A large fiscal stimulus under the new administration could well provide another boost to the U.S. economy. Valuations in many areas of the U.S. market appear stretched, but with a pickup in earnings, the market may not remain so expensive.

- Europe remains highly challenged, with uncertainty about the future of the European Union, low growth and high unemployment.

- China's economy continues to grow, supported by aggressive stimulus and a healthier property market. And in many emerging markets the rebound that began in 2016 appears to have momentum, supported by higher commodities prices and China's turnaround.

- Uncertainty over the direction of the Trump administration may linger for months. But questions about the future of trade policy may be partially offset by prospects for lower corporate taxes and other business-friendly policies.

- With election behind us, the U.S. expansion, well into its seventh year, continues to show age is just a number. With no obvious signs of excesses in the economy, look for continued growth in 2017, driven by a strengthening consumer. The U.S. remains a tale of two economies - with consumer health partly offset by relatively weak, albeit recovering, industrial activity - so expect modest growth.

- After years of gains most U.S. stocks appear fully valued. As of September 30, 2016, the cyclically adjusted price-to-earnings ratio for the Morgan Stanley Capital International USA Index was 24.1, above the index's long-term average. That said, the prospect of tax cuts and infrastructure spending by the Trump administration could provide a tailwind for corporate earnings.

- Deflationary pressures, weak economic growth and mounting political risks are weighing on the outlook for the European economy. Negative interest rates are slamming the banking sector and corporate earnings, although improving, remain stuck in low gear.

- Meanwhile, political uncertainty is growing throughout the region as the U.K.'s June 23 vote to leave the European Union and Trump's rise to the U.S. presidency may bolster support for nationalist, anti-immigration, movements.

- EU stability is rapidly becoming the biggest new threat to Europe's uneasy recovery from the 2008-09 financial crisis.

- The rate of economic growth in the euro zone is likely to be lower on average than it has been in the past. Previous expectations for annualized growth of 2% to 2.50% are now giving way to more pessimistic forecasts of 1% to 1.5%. That kind of anemic growth leaves Europe vulnerable to outside shocks, such as further slowing of China's economy or a potential recession in the United States.

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- U.S. interest rates drifted higher after the U.S. presidential election, as Trump's emphasis on infrastructure spending and tax cuts could lead to a higher budget deficit and higher inflation. Despite the rise, rates remain relatively low by historical standards and appear poised to remain low for some time.

- Even if the Fed does continue to slowly hike rates, it could have a relatively modest impact on long-term yields if other factors, like global demand for Treasuries, persist in holding them down. Central bankers may also prefer to allow the economy and inflation to "run hot" for a while rather than tighten policy more aggressively.

- Although this 8-year period of low interest rates might seem long, history has shown that low-rate periods can carry on for much longer.

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