Leigh Baldwin & Co.

Investment Brokerage

It is that time of year when students return to classes and Wall Street gets back to business. As we have noted before, the primary drivers of business growth have typically been savings and innovation. With corporate coffers still stuffed with Fed-induced cash and new technological advances moving at exponential speeds, business is well positioned for the years ahead. For stock investors, the combination of liquidity, valuation, and earnings are keys to performance returns, regardless of how the economy grows.

As seen from 2000 feet, the world economy appears to be liquid with easy credit on almost every front based on low interest rates and improving economies. In the US, banks have received positive grades on their financial stress tests and are now free to increase cash dividends, buy back stock, and make more loans. The Fed is committed to higher interest rates but has been measured and thoughtful to the increases so far. Finally, any positive news from Washington with respect to tax reform or dare we think healthcare reform, could be a huge boon to liquidity.

With respect to valuation, within the US a good case could be made that stocks are fully valued. Interestingly, as the economy picks up to 3% growth, the valuations begin to look better and if you factor in the resurgence in oil prices and the possibility of a much stronger oil sector, the valuations may not be the wind against our sails as many have predicted. Currently, the Dow is trading at about 17X earnings, not cheap, but not outrageous. Finally, the real story may be in the international markets were stocks have much lower valuations and may offer a second wave of growth going well into 2018.

Earnings have always been the ultimate driver of stock performance and as we head into the third quarter reporting season, the report cards appear to be good. Even with disrupters from companies (think Amazon), the government (legacy regulatory constraints), and natural disasters (hurricanes, etc.), corporate earnings are poised to be solid if not spectacular.

2017 has been a divisive year for many but a unified year for positive market returns, with the Dow (+15%), the NASDAQ (+20%), and the Russell 2000 (+10%). While mathematically and historically we are due for a pause, investors can be comforted by many of the positive economic trends lying beneath the noise of the day. Your homework assignment is to review your investments and make sure they align with your future goals and we look forward to meeting with you personally over the weeks and months to come and as always, we appreciate your confidence in our firm. Class dismissed.

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