

Spring 2017

With a tip of the hat to the new baseball season (and the hope that one day soon they'll announce a team is returning to Montreal), a recap of one of the most memorable games in modern history.

In May of 1979, the Phillies visited the Cubs for an afternoon game. The wind was gusting out to Wrigley's left field and the Phillies took full advantage early on, building a 21-9 cushion going into the bottom of the fifth inning. The comfortable lead soon vanished. Led by Dave Kingman's three homers and a Bill Buckner grand slam, the Cubs spent the next three-and-a-half innings pounding the Phillies. At the end of nine, it was tied at 22. In the tenth, the Phillies collected themselves and future-Hall of Famer Mike Schmidt hit his second homer of the game. The bullpen managed to blank the Cubs in the bottom half of the inning. Philadelphia edged the Cubs, 23-22.

The winner of that historic game reminds us of the financial markets since the "great recession" of 2008-2009. Like the Phillies (who gave up 26 hits, six of them home runs), the markets endured crisis after crisis (the US subprime meltdown, sovereign debt problems of Europe, Brexit, and oil shocks) and managed to come out ahead. That the economic growth is still 1.5% to 2.0% is a testament to central banks and governments, as well as businesses adjusting to the changes pitched their way.

Those resilient Phillies won the World Series the following year, and there's growing evidence the current financial markets are strengthening. In the last six months, the export-oriented economies in Asia have shown steady growth, as have those in America and Europe. More heartening, some of the hardest hit economies, like Russia's and Brazil's, are seeing their long recessions finally come to an end. The survey of Purchasing Managers Index (PMI) shows factories getting a lot busier, and global trading hubs like Taiwan and South Korea bustling with export shipments (up over 20% this February over last year at the same time). North America and the Eurozone are showing PMI readings well above 50, the level that indicates expansion. (The US PMI is currently at 57.2, the Eurozone is 56.2, and the Canadian PMI is 55.1.) Additionally, JPMorgan Chase's business spending on machinery and equipment proxy suggests worldwide equipment spending grew at 5.3% annualized in the last quarter of 2016. But it's not just manufacturing that's looking up. American employers added 219,000 workers to their payrolls in February, the 77th consecutive monthly gain. The European Commission's economic-sentiment index, based on surveys of service industries, manufacturers, builders and consumers, is as high as it has been since 2011. And wages are increasing, which inevitably leads to increased consumer confidence and spending.

The 1980 Phillies' roster was almost identical to that of the previous year. And, aside from Mike Schmidt, nobody on the team hit 20 or more long-balls. Known as the "Cardiac Kids," the team eked out games largely by doing the little things, when it counted. It's unlikely we'll see many home runs in terms of changes to the US economic policies, but there's great promise for a number of base hits, strung together. If both US political parties follow through with their pledges to lower the corporate tax rate, even a modest amount, the economy is set to improve dramatically. At 39.6%, the top corporate rate in the US towers over the world average, closer to 22%. The current president's goal of cutting the top tax to 15% may be too ambitious, especially with Democrats aiming more toward 28%. But splitting the difference takes the country near the global average, and the savings would allow increased corporate investment in people, plants, and equipment. It could also drive some of the nearly \$1 trillion held offshore Stateside. This kind of change impacts the entire world economy.

Executive orders have indicated that there's a real chance regulations on companies will be eased. While it's important to protect our environment and safeguard financial systems, much of the regulatory system has become burdensome and antiquated, and needs change. A 2014 study commissioned by the National Association of Manufacturers (NAM) estimated the cost of compliance with US federal regulations at over \$2 trillion a year. Even a small improvement, say 5%, would save over \$100 billion a year.

Keep in mind that the impact of these things won't be felt immediately. If there is, as both political parties have said there should be, a huge increase in infrastructure spending, for example, Caterpillar, the massive maker of construction equipment, believes significant benefits won't be seen until at least 2018.

In this age of unprecedented pessimism, you'd be justified in being skeptical about our optimism. But, please, consider that the markets have moved steadily up since the fall. And the major reason for that is the *real* improvement seen around the globe. No doubt, there are gonna be some bad innings in the coming year. We're facing a lineup that includes Britain's leaving the EU, China's heavy debt burden, investor impatience, and protectionist policies. But the markets will continue their resiliency, and coming changes will help win the game. Pete Rose was a key part of the Phillies winning that epic 1979 game. He had three hits, none of them homers, but still knocked in four runs. Sometimes the small things, singles and doubles, are the difference.