CAROLINAS
INVESTMENT CONSULTING LLC

ECONOMIC UPDATE

September 2019

By John E. Silvia

Five economic fundamentals provide a basis for good due diligence when considering the structure of your investment portfolio. These five fundamentals are growth, inflation, interest rates, the dollar and corporate profits.

What are your expectations for growth - recession, slowdown, continued moderate growth? The strength of economic growth tends to be associated with strength in the equity markets and therefore signals to the extent and type of equity investments you are looking for in your portfolio.

How about inflation? For some time now, inflation has remained below 2%, the Federal Reserve Board's target, and clearly has not accelerated as would be expected given the decline and low level of unemployment. Should we anticipate a pickup in inflation or continued low inflation given the impact of global competitive pressures and even slower global growth in recent months?

A path for interest rates reflects the influence of expectations on Federal Reserve policy at the short end of the yield curve and expectations for growth and inflation at the long end of the curve. For now, the Fed cut its benchmark interest rate another quarter point at its September meeting and are expected to ease again by December. Meanwhile, slower economic global growth and continued low inflation favor continued low long-term interest rates. The global search for yield continues.

Our dollar exchange rate remains strong thereby reducing the price of imports but lowering the price advantage of exports. This pattern results in the relative performance of companies that import relative to exports. Why dollar strength? Relative growth and higher interest rates continue to favor the U.S. dollar versus other currencies.

Finally, the pace of expected profit growth reflects the expected pace of the economy and unit labor costs. In recent quarters, profit growth has slowed and unit costs have risen suggesting caution for investors going forward.

These five fundamentals provide the basis for good due diligence in structuring an economic outlook for investors. Going forward we will focus on these fundamentals and their evolution over time.

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Director of Economics

John E. Silvia joined Carolinas Investment Consulting in August 2019 after his recent retirement from Wells Fargo in Charlotte, N.C., where he served as Managing Director and Chief Economist. He held that position since joining Wachovia in 2002 as the company's Chief Economist. Prior to Wells Fargo, John worked on Capitol Hill as a senior economist for the U.S. Senate Joint Economic Committee and as Chief Economist of the Senate Banking, Housing and Urban Affairs Committee. Previously, he was Chief Economist of Kemper Funds and Managing Director of Scudder Kemper Investments, Inc.

John has written two books on economics. The first book, Dynamic Economic Decision Making, was published by Wiley in August 2011. During this time, John was awarded a National Association of Business Economics (NABE) Fellow Certificate of Recognition for outstanding contributions to the business economics profession and leadership among business economists of the Nation. His second book, Economic and Business Forecasting was published by Wiley in 2014.

John received his B.A. and Ph.D. degrees in Economics from Northeastern University and his Master of Economics degree from Brown University.

John Silvia is currently in the process of launching his firm, John E. Silvia, Dynamic Economic Strategy.