INVESTMENT UPDATE
NEWSLETTER

ALLEN TRUST COMPANY

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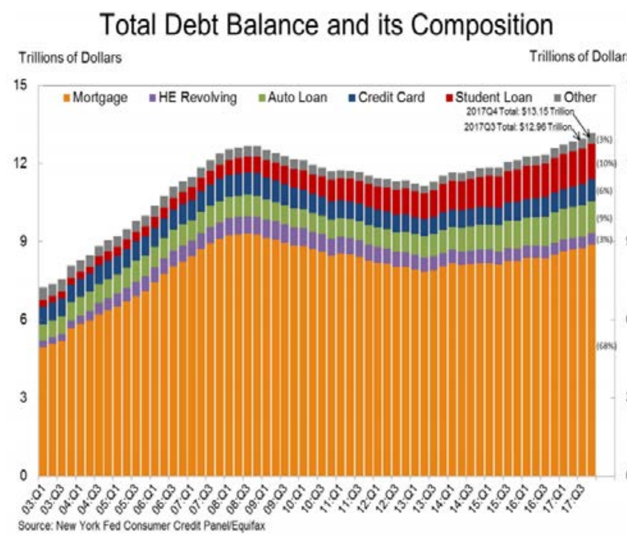
## U.S. Economic Growth Undeterred

Concerns about inflation emanating from wage growth expectations, oil prices, and trade restrictions have impacted investor sentiment year-to-date. These fears contributed to a loss for the S&P 500 Index for the first quarter of 2018, only to see a bumpy reversal to positive territory net of dividends as of May 8, 2018. In spite of the challenges, both U.S. and global manufacturing output have remained in a solid long-run growth trend, and U.S. inflation is modest.

Interest rates are increasing with an expected two more rate hikes by the Federal Reserve over the remainder of 2018. Federal Reserve Chairman Powell recently noted that the Federal Reserve will continue the monetary normalization process while "communicating policy strategy as clearly and transparently as possible to help align expectations and avoid market disruptions" (Federal Reserve Chairman Powell 5/8/2018 speech). With inflation and labor market conditions in target range, we would anticipate the Federal Reserve remaining constrained in its actions for the remainder of the year.

U.S. retail sales trends remain healthy with the latest reading for the first week of May coming in at a 4.2% growth rate, above the 3.5% estimate. At the same time, while retail consumption patterns are fairly robust, total household debt has surpassed levels preceding the 2008 recession. The composition has changed with student loan debt reaching $1.38 trillion at December 31, 2017. Thus, we observe the impact on first-time home buyers – the cycle has been slower than expected and may therefore last longer.




Our asset allocation stance is centered on above-potential U.S. GDP growth in 2018 trending downward over the coming years with rising, yet low in the context of history, interest rates. With price-to-earnings valuation levels for the S&P 500 Index improving, given expected earnings growth in a low inflation environment, we continue to view the U.S. equity markets constructively. We have increased our global diversification across asset classes over the past year based both on valuation and the potential for both positive and negative surprises from sovereign nations around the world.