Greycourt's Views for Intermediate-Term Returns

Predicting how any single event such as the Act will influence market returns in the near-term is a fool's errand. Having said that, we attempt every quarter to systematically assess a wide range of economic and market factors to develop our views.

Following is a summary of our recent 12- to 18-month views:

U.S. Stocks. As the benefits of the tax cuts are realized in 2018, we expect investors to respond favorably, pushing equity valuations a bit higher than today's lofty levels. Once the initial wave of euphoria subsides, we expect valuations will revert to more normal levels.[6]

U.S. Bonds. With consumer demand rising with stronger earnings and wage growth in 2018, reported inflation will push through the Fed's 2% target. Speculation regarding the Fed's response will push rates up across the entire yield curve. As the temporary nature of the Act-driven earnings bump becomes evident, we expect inflation fears to subside and rates to revert to current low levels.

*U.S. High Yield Bon*ds. As our clients and friends know, we have not liked high yield bonds for some time, because spreads and risk-compensation have been inadequate. We acknowledge that rising corporate earnings and consumer spending support current holders. Nonetheless, we don't find the after-tax risk and reward tradeoff for high yield bonds attractive and continue to avoid them.

Jim Foster
Managing Director
Chief Investment Officer

[6] We define the normal level as 19.5x trailing twelve-month earnings. We expect the reversion to be associated with rising interest rates, increasing inflation, and slower earnings growth after 2018.