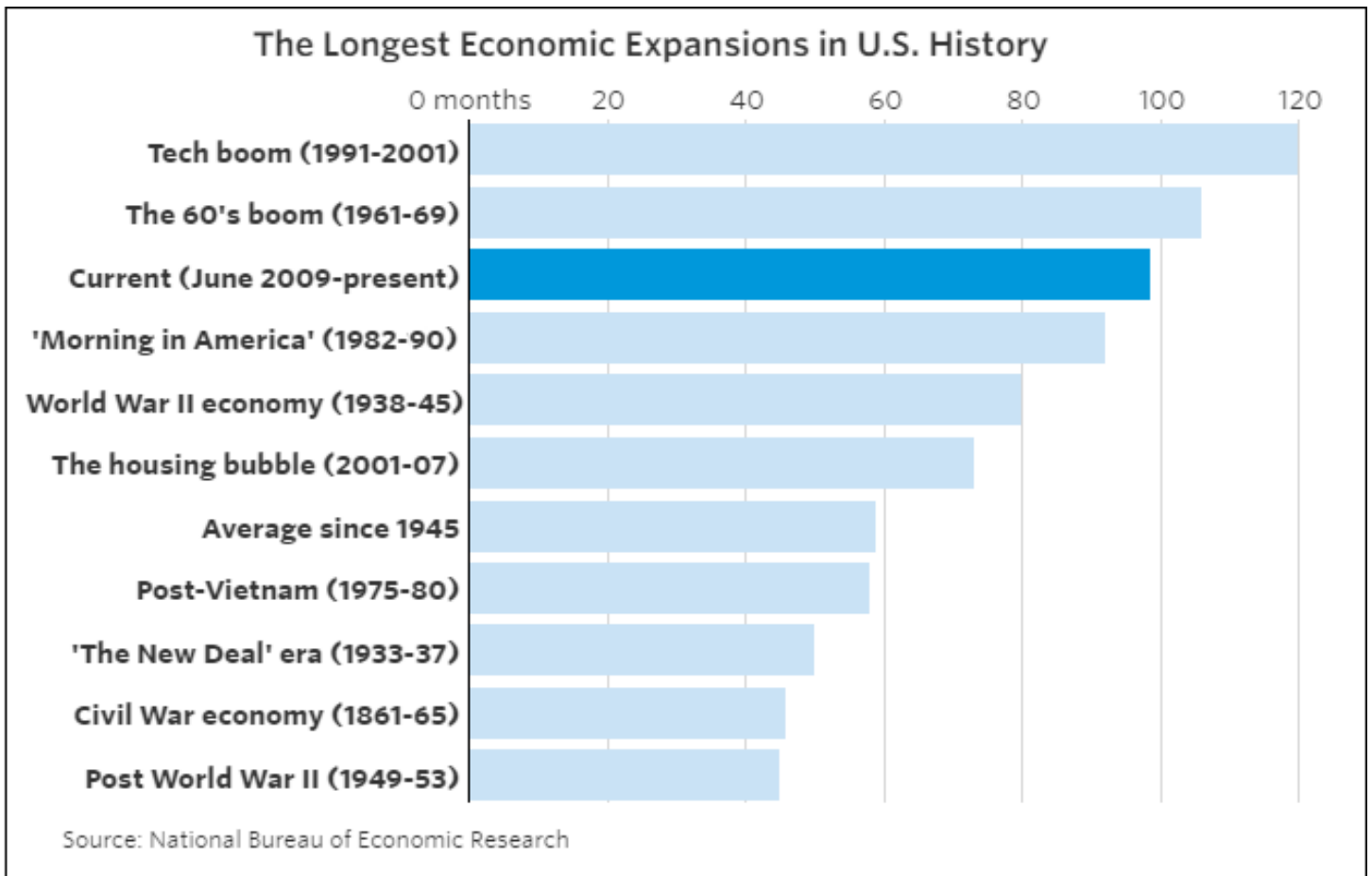


CHART OF THE MONTH

AUGUST 2017



The current economic expansion, which is now 98 months old, is the third-longest in U.S. history dating back to before the Civil War.

As shown in the bar chart above, only the tech boom (120 months) and 1960s (106 months) produced longer periods of growth. This expansion will become the second-longest ever if it endures through next spring and will set an all-time record should it persist until the summer of 2019.

Since World War II, the average expansion has lasted just under five years. As such, it would appear as if the current expansion is getting "long in the tooth." However, it is important to note that expansions have been growing in length over the past 50 years (with five of the six longest occurring since the '60s), largely due to the shift from a manufacturing to a less-cyclical service economy.

Gross Domestic Product has grown at an average annual rate of 2.1% since mid-2009. By contrast, GDP advanced at 3.6% during the 1991-2001 expansion. The combination of a deep recession and a slow recovery has resulted in an unusually long cycle, one that could become the longest ever in less than two years. While there undoubtedly will be another downturn at some point, we don't foresee a recession in the near future.

If the past is prologue, the S&P 500 earnings are likely to climb above the 7% trend line as they have in each of the past five expansions prior to the next contraction (see below). Importantly, higher earnings should generate higher stock prices over time. Meanwhile, according to a model published by the Federal Reserve Bank of St. Louis, the probability of a recession in the U.S in the next 12 months is less than one percent.

We pay close attention to business cycles because recessions invariably produce bear markets. Generally speaking, no recession means no bear market (classically defined as a 20% or more correction in stock prices from the peak to the trough). That said, investors need to recognize that stocks are always subject to pullbacks even in the best of times, including what may become the longest expansion on record.

