CLEAR CREEK ADVISORS

WORLD PROFITS

Market Review **AUGUST 2017**

The third longest US recovery since World War II extends its life farther. The US economy grew at a 2.6% annualized rate in the second quarter of the year. Spending by consumers and businesses helped fuel the economy's expansion. Consumer purchases rose by 2.8%, which was an improvement over the 1.9% increase in the previous quarter. Business spending, excluding inventories, had one of its strongest readings in recent past years and US exports gained on a weaker US dollar.

US corporations and shareholders are sharing in the economy's prosperity. A majority of the largest US corporations have reported higher revenues and profits on their second quarter earnings calls. The blended (year-over-year) profit growth rate is expected to reach 11% for the second quarter. Profit growth topped out at 15% in the first quarter. Technology and Financials are experiencing the largest growth figures. Industrials and Healthcare are following closely behind. The Energy sector stands as an outlier. The sector has so far reported a quadrupling of profits mostly because earnings were so depressed from one year ago.

US Stock market bulls pushed Technology stocks higher in July on some upside earnings surprises. Other sectors made small-to-modest gains in July as earnings delivered as expected. The broad price of US stocks for one dollar of future earnings is now trading around 17 times. In comparison, the 5-year and 10-year average for the same price multiple has historically traded around 15 times.

To date, the Euro and Yen have appreciated by 12% and 6% against the US dollar, respectively. The currency gains are sizable considering government interest rates in the United States are higher than any other comparable economy. Although a weaker dollar is favorable for US multinationals and US exports, it can be a bad omen for international stocks. International companies that make sales in US dollars lose on currency conversion. European profits are less affected by big moves by the Euro. Earnings growth in Japan, however, has shown a negative relationship when the Yen strengthens.

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The International Monetary Fund (IMF) cites Germany's trade imbalance as a potential global risk. Germany's trade surplus as a percent of GDP has been above 8% over the past couple of years. When a country exports a greater number of goods and services compared to what it imports, its foreign savings account grows. The IMF warns that Germany's excess savings from its trade surplus can create future pockets of investment bubbles in the global economy. The IMF estimates that the Euro will need to appreciate by another 10% to 20% against the US dollar to bring German trade into parity.

The United States is also contributing its own share of concerns to the global monetary system. Conversations among White House staffers regarding trade tariffs seems to be intensifying. The IMF fears that global trade imbalances would further escalate should the Americans or another global power set-off a trade war in order to protect domestic industry. Also, the US Treasury will soon reach a maximum borrowing limit. Congress will be asked to raise the 'debt ceiling' after the August recess. Should Congress do nothing, the nation will be unable to pay its bills and interest. However, a US default is an unrealistic forecast. A government shut-down is much more realistic. Finally, the Federal Reserve Bank still sits on a $4.5 trillion-dollar balance sheet.

US corporate profits, stock buybacks, and eight-years of ongoing US growth has left investors enthused. Unemployment is low and prices are stable. US productivity and real wage growth are still lacking. A pickup by both would be beneficial for the US economy. Things seem to be satisfactory for now. However, it is probably best not to become too complacent.

Market Movers

Foreign Equity and the Eurozone economy was exceptionally strong in July. The group of 19 countries posted another quarter of plus two percent annualized growth. The European unemployment rate is slowly improving and inflation remains below the official target. Europe's improving economies may provide room for the European Central Bank to begin monetary tightening. The Core Allocation models continue to outperform their benchmarks, Morningstar World Allocation and Morningstar Tactical Allocation categories. Strong corporate profits and global economic expansion have supported the Investment Team's decision to overweight equity at the beginning of the year. Within the major asset categories, the specific asset class selection continues to drive attractive overall risk-adjusted performance.

Asset Categories	*Monthly*	*YTD*
US STOCKS	1.21%	7.33%
FOREIGN STOCKS	3.86%	21.35%
US BONDS	0.67%	2.94%
FOREIGN BONDS	1.20%	6.75%
HARD ASSETS	2.64%	1.74%
HYBRIDS	1.41%	8.60%

*DATA USED IS SOURCED FROM MORNINGSTAR®

US STOCKS prospered by posting a respectable gain in July. We are now nearing the end of the second quarter earnings season. Earnings per share have been in-line with expectations. Large-Cap (IVV) stocks were by far the greatest beneficiary from upbeat earnings news. Large Caps gained nearly 2% last month and have so far accrued year-to-date returns of just over 10%.

FOREIGN STOCKS pounced in July with an almost 4% gain. Emerging Markets (VWO) led the category. Our increased Emerging Market equity exposure and overall global stance in the Core models has been a key driver of returns since the beginning of the year.

US BONDS made modest gains in July. High-Yield bonds (JNK) topped the category but some investors are growing increasingly skeptical of the yield premium offered by this asset class. However, our overall bond allocation has allowed the Core portfolios to participate in the strong year-to-date returns of high yield bonds.

FOREIGN BONDS were revitalized in July. For the full year, Foreign Bonds appreciated nicely and significantly outperformed US Bonds. Emerging Market bonds were the best performers. Our tactical decision to allocate to Emerging Treasury (PCY) bonds at the beginning of the year has led to attractive outperformance in this asset category.

HARD ASSETS rebounded sharply in July. The Energy category was up roughly 5% last month. Energy stocks reversed their losing trend on favorable earnings news. The Energy category remains down nearly 15% on the year. Our investment in Master Limited Partnerships (AMJ) has protected the Core Strategies from the full sell-off by Energy. Precious Metals (IAU) and Real Estate (RWO) reversed their June losses in July. Our Hard Asset allocation has been durable while still offering significant risk management and diversification benefits to our portfolios.

HYBRIDS consistently deliver slow, but positive monthly returns. The category finished last month with attractive returns adding to its year-to-date gains, which are now closing in on 9%. Positive equity market performance and stable market interest rates supported the Hybrid category. The Core Allocation's positions in Variable Rate Preferred (VRP) and Convertible Bonds (CWB) continue to enhance total return while also keeping a focus on risk management.