2018: The Year Ahead

Annual Market Outlook

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The Year Ahead: 2018 Annual Outlook

Note to our readers: On pages 11-12 you can find an executive summary presenting in bullet point form the key themes we discuss in more detail elsewhere in this report. Of course, we invite you to read the full document for an understanding of the economic, capital market and other forces shaping our thought process.

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I. The World in 2018: Contradiction and Continuity

A. Capitalism, Culture and Contradiction: A 21st Century Update

The breakup of the traditional bourgeois value system, in fact, was brought about by the bourgeois economic system – by the free market, to be precise. This is the source of the contradiction of capitalism in American life.
-- "The Cultural Contradictions of Capitalism" by Daniel Bell, 1976

Daniel Bell, the Harvard professor and widely published sociologist, wrote "The Cultural Contradictions of Capitalism" more than 40 years ago. A succinct description of the contradictions the book aims to describe might go something as follows:

America's traditional value system arose from the inherited traditions and actual realities of the small towns, dependent on agriculture, that dominated the American experience prior to the rapid urbanization of the mid-late 19th century. Those values – heavily influenced both by the transcendental, moralistic Puritanism of the 17th century and the thrifty, pragmatic Protestantism of Benjamin Franklin's era – in turn found ready expression in the rational, efficiency-driven industrialism of the early capitalist era. This was the "Protestant ethic" described by Max Weber in his 1905 treatise "The Protestant Ethic and the Spirit of Capitalism." But that ethic contained the seeds of its own inevitable undoing. Mass production, marketing and installment finance – three successive innovations of the capitalist system, produced a culture entirely at odds with that "traditional bourgeois value system" of thrift, frugality and self-control. What developed instead was the culture of mass consumption and the frenetic pursuit of entertainment with which we are most familiar today. A system built on one set of values inevitably had to come into direct conflict with a culture based on the opposite of those values. In the words of Bell:

This cultural contradiction is, in the longer run, the most fateful division in the society.

A young reader perusing this book in the late second decade of the 21st century might describe the content therein as "quaint," or, perhaps, "utterly lacking in relevance." Our young, astute and (most likely) urban reader might respond to Bell's thesis with the following argument:

What fateful division, Dr. Bell? The contradiction no longer exists. We live in a post-industrial world in which thrift and scarcity have been replaced by abundance and immediacy. There is no contradiction between the economic system and the popular culture – they have become symbiotic, joined at the hip. It would be silly to ascribe some special characteristic of a "Protestant ethic" to a global capitalism that has utterly transcended the narrow dogmas and cultural restrictions of ancient belief systems rooted in ethnic and tribal identities. The leaders of our societies don't tell us to sacrifice or pitch in for the common cause – they tell us to go shopping and to expect more for less, always. Anyway, what our leaders tell us is irrelevant. We orient our lives, our values, and our decisions through an always-on connectivity we have with the entire world, right at our fingertips and curated through our Twitter feeds and Instagram communities.

Who's right here: the Harvard professor musing about social trends four decades ago, or the young worker informed by the reality she sees in her everyday world at the dawn of 2018? Our hypothetical millennial makes some valid points. The idea that there is a fundamental divide between our economic system and what we might call our broad-based cultural values does seem antiquated. Daniel Bell saw a crisis resulting from the clash of values; what happened instead is that the economic system adapted to the changing cultural preferences of its society. Mass consumption swallowed "traditional bourgeois values" whole.

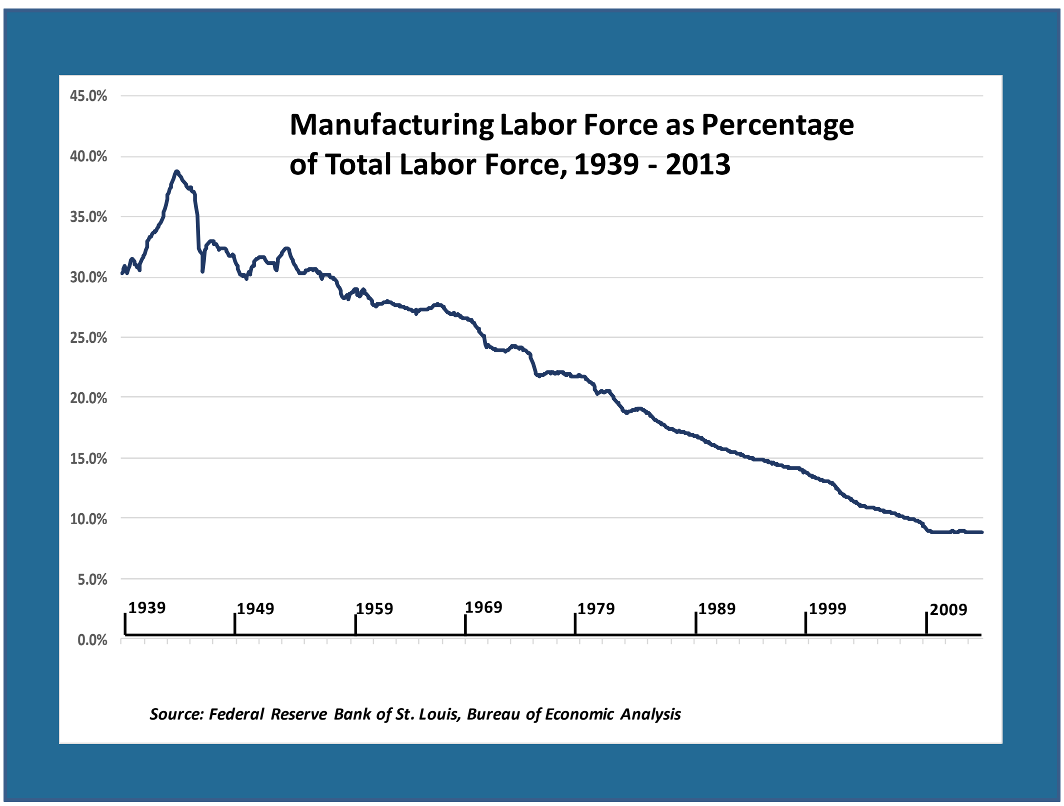
That should come as no surprise to anyone; far from being a "contradiction" in capitalism, it is the very essence of capitalism to evolve. The main flaw in Bell's argument was that he ascribed a fixed ethical code to a system. But the entire point of that system is to facilitate commerce in the most profitable way to reward the owners of the assets that produce goods and services for society. Any ethical considerations are secondary and flow directly from that overarching priority. A titan of American industry in the early 1950s would likely have been contemptuous of LGBT rights, or #BlackLivesMatter or #MeToo. Today, though, the prominence of leading corporate figures affirming and supporting progressive social causes does not come as a surprise – that's where mainstream culture has evolved. Fluidity and adaptability, not a hidebound ethic, is the true "spirit" of capitalism.

Where Are the Fateful Divisions?

But let's not write off Dr. Bell's argument entirely. The idea that capitalism has an approaching reckoning with itself is not completely out in left field. This is not something that shows up in the daily diet of macroeconomic data points at the start of 2018. But it is lurking behind those comments we hear in other settings. "The system is broken." "The experts don't know what they're talking about." The numbers tell us everything is okay, but something seems off. Bell's "fateful divisions" may in fact exist. But where? The world of work is a good place to start.

Consider the so-called "crisis in manufacturing" – that knee-jerk phrase used by politicians of all stripes as they promise to return our workers to a mythical golden past of proud and self-sufficient factory workers. For all the prominence given this topic, some of the basic facts of the US manufacturing industry are given remarkably short shrift or simply ignored. We start with the dramatic decline in the percentage of the labor force engaged in manufacturing activity, as illustrated in Chart 1 below.

Chart 1: Manufacturing Labor as % of Total Labor Force, 1939 - 2013



Here, we imagine, is the heart of the "crisis in manufacturing." Where this sector used to occupy a full third or more of American labor, it now offers employment to less than 10 percent of available workers. What happened to the rest of those workers? Well, clearly (given that we have not had any kind of Depression-era level of unemployment in the years since) they went somewhere. More specifically, at the end of 2017 nearly 50 percent of the US labor force was employed in the areas of education, health care, retail, and general business services. Fortunately, the economy expanded in these areas sufficiently to absorb the surplus workers no longer required by manufacturing.

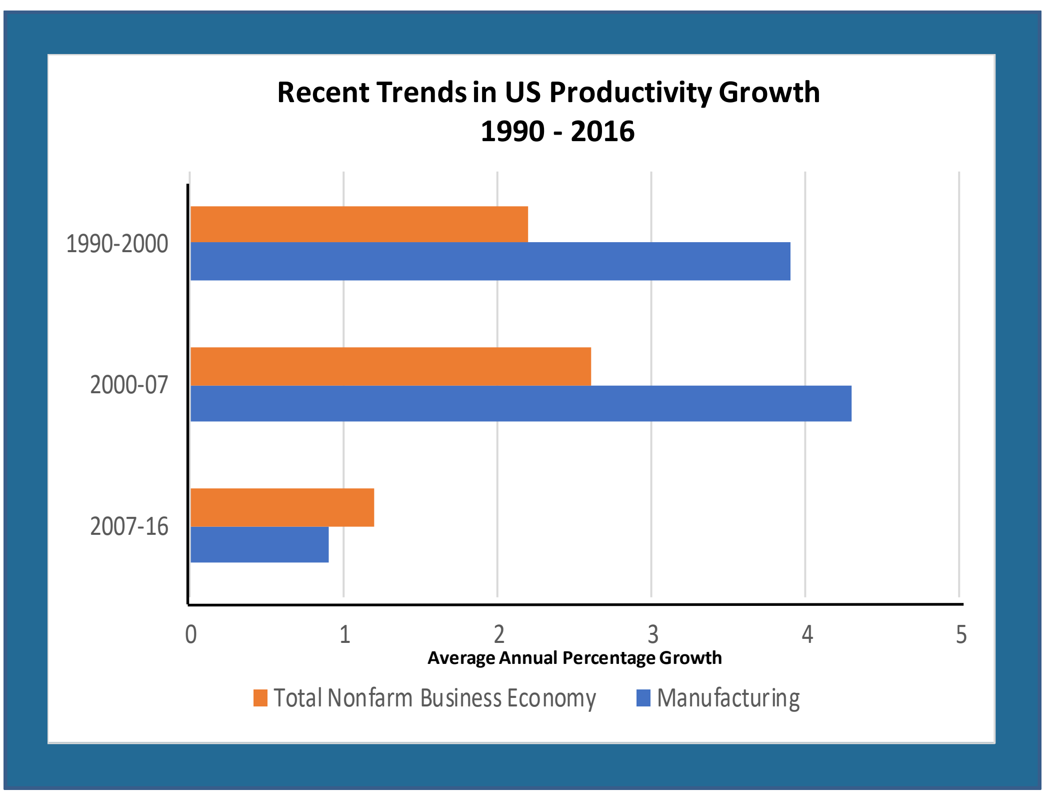
That's not the whole story, though. Even though the percentage of the labor force engaged in manufacturing dropped precipitously, manufacturing's share of real GDP stayed remarkably constant. According to a study last year conducted by the Federal Reserve Bank of St. Louis, manufacturing's contribution to real GDP was 11.7 percent of the total in 2015 (the last year for which the study had data). That may not sound like much, but it was pretty close to the 12.2 percent contribution made by manufacturing in 1947. That's right – *when adjusted for inflation, US manufacturers churned out about as much in 2015, relative to total economic output – as they did in 1947*.

Over this entire 70 year time period, in fact, manufacturing's share of real GDP varied in a narrow range from a maximum of 13.6 percent to a minimum of 11.3 percent. The oft-heard complaint that "we don't make things here at home anymore" really is not true. In fact, we make more or less as much today as we have throughout the postwar period. We just do it with fewer workers, and that brings us to the crux of the contradiction at which we hinted above.

The Labor-Productivity Contradiction of Capitalism

Whenever a company, or an entire industry sector, is able to produce the same amount of output with a lower commitment of labor, that company or sector is being more productive. Again, it is a common reflex of our national economic conversation to bemoan the failing competitiveness of US industry – and yet, the rate of productivity in manufacturing was higher than it was for the economy as a whole. Chart 2 below illustrates the productivity trend of manufacturing versus the total nonfarm economy since 1990. This time period, of course, coincides with popular concerns about the "manufacturing crisis" and related trends like outsourcing and global competition.

Chart 2: Productivity Growth in Manufacturing Versus Total Economy

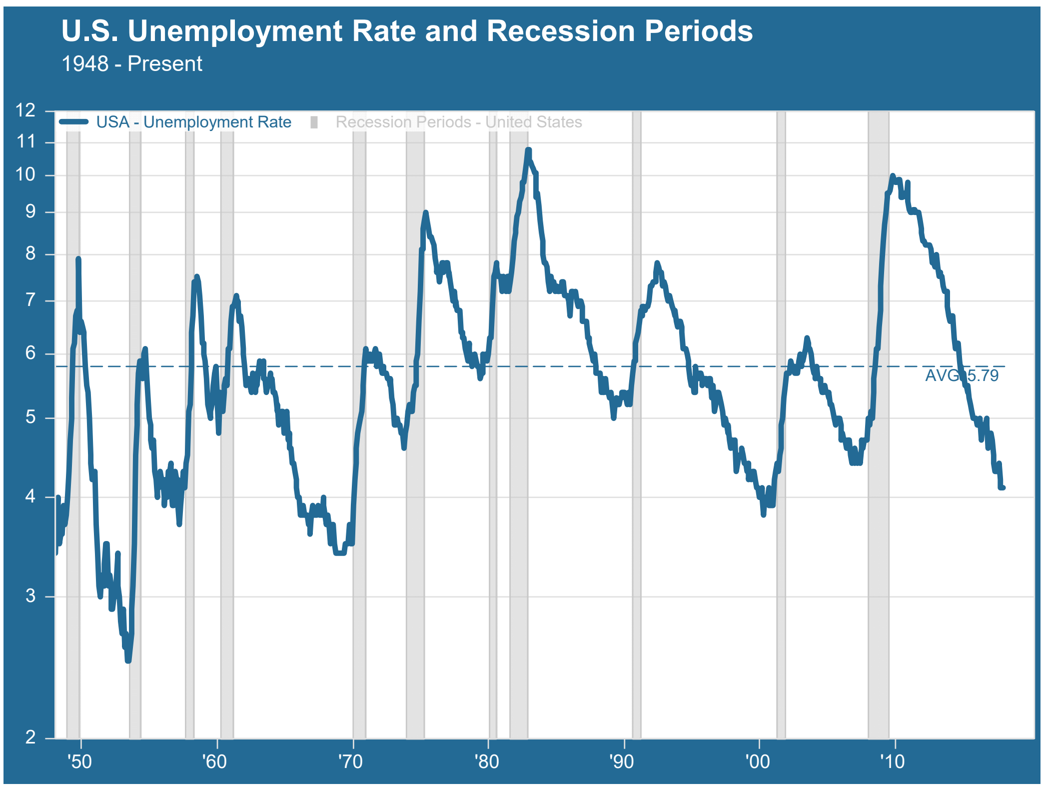


Source: US Bureau of Labor Statistics

In fact, if you look carefully at the trends in Charts 1 and 2 above, you will see a near-linear decline in manufacturing jobs (relative to the total labor pool) from 1990 to 2007. That time period coincides with the strong outperformance of manufacturing productivity relative to the total economy. The jobs decline then levels out around 2009, just when manufacturing productivity also falls slightly behind the overall economy. Productivity is great for growth – needed for growth. But productivity also costs jobs.

How has capitalism survived this contradiction between labor and productivity so far? We alluded to part of the answer above: the jobs lost in manufacturing over the past seventy years were mostly offset by job gains in other sectors, notably healthcare, education and retail services. There was no specific crisis (or “fateful division” in Bell’s words). Productivity rose and jobs fell in manufacturing, but for the overall economy the average annual rate of unemployment was 5.8 percent, generally spiking only during recessionary periods. Chart 3 below illustrates the trend in US unemployment over the past 70 years.

Chart 3: US Unemployment Trends



Source: US Bureau of Labor Statistics, FactSet

The Stories We Tell

Here is the question to think about though, as we tie together the various threads of discussion we have woven into this opening section of our 2018 Annual Outlook: Is there a plausible causal linkage between the three pieces of data introduced in Charts 1, 2 and 3? In other words, does productivity in one area of the economy (in this case, manufacturing) necessarily create the conditions whereby overall employment is stable even if it declines precipitously in those more productive sectors? If the answer is yes – if productivity growth generates a broad-based wealth effect from which employment growth is a necessary outcome – then the labor-productivity contradiction doesn’t exist, or at least is reduced to the marginalized sidelines of economic theory. Such a narrative has, arguably, grown up around the trends witnessed over the past seventy years.

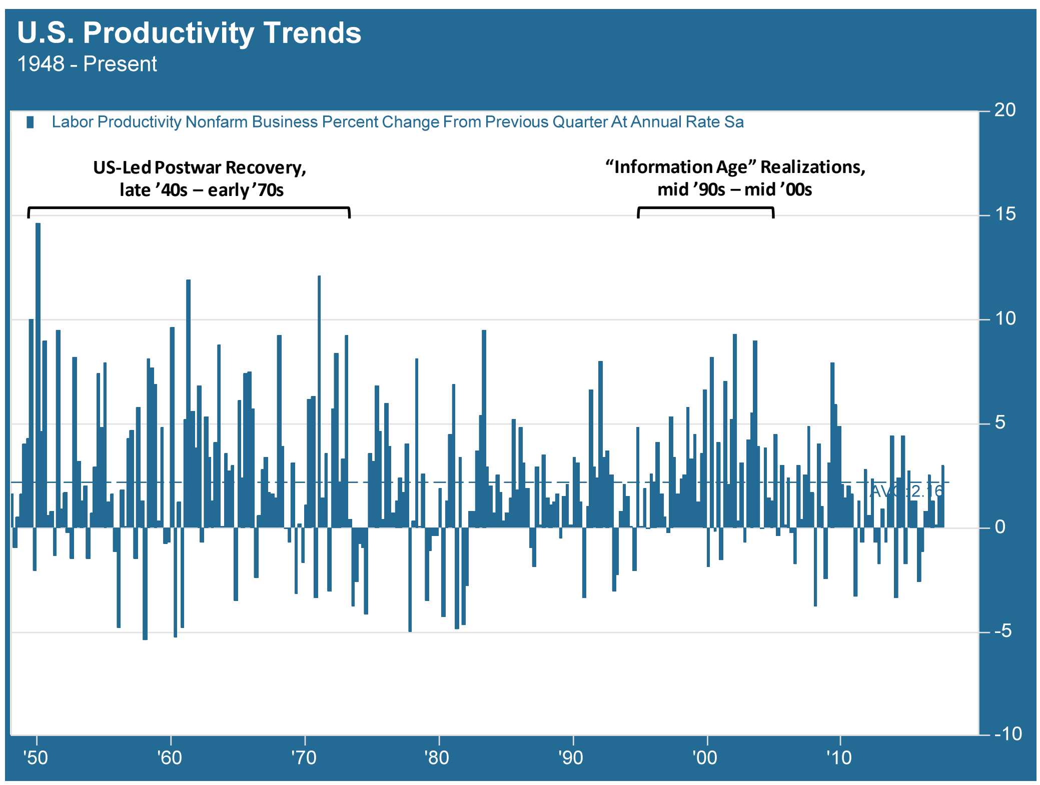
It is a lazy narrative, though. There is nothing either sufficient or necessary about productivity growth that paves the way for stable employment. The trends that led to voluminous expansion in fields such as healthcare, education and retail services – i.e., the big job creators of the past several decades – were largely organic and had little to do with the specific factors driving the manufacturing sector. The fact that employment remained relatively stable during this long time period was more incidental – a happy coincidence, if you will – than it was a necessary outcome of manufacturing productivity.

Why This Matters Now

The reason why any of this matters now is that we may – or we may not – be on the cusp of another wave of productivity growth. If the growth does take place, we can expect to see jobs in the affected industries rendered redundant, just like we saw in the manufacturing sector over the previous seventy years. If, on the other hand, overall productivity does not improve any time soon, then we shall have to come to terms with the likelihood of a very low-growth future, with all that implies for the standard of living and quality of life for the average American.

For the moment we will put aside the issue of secular stagnation, though, and think about what that new productivity wave might imply, if it comes to pass. Let's look first at the story to date: Chart 4 below shows the overall rate of productivity growth in the country since 1948.

Chart 4: US Productivity Growth Trends



Source: US Bureau of Labor Statistics, FactSet

Chart 4 shows that there have been two significant productivity waves in the postwar period. The first could be called "scale productivity." It coincided largely with the consolidation of industrial production facilities – factories, warehouses, distribution channels and the like – into efficient value chains. This was the productivity that finally arrived from the major scientific innovations of the late 19th century, principally electricity and the internal combustion engine. This productivity wave lasted more or less until the early 1970s and then faded into a prolonged period of stagnant growth and high inflation during the '70s and first few years of the 1980s.

The second productivity wave was also something of a delayed reaction: the technological innovations that brought computers to office desktops in the early 1980s, networked offices in the late 1980s and corporate email in the early 1990s showed up as productivity in the later years of that decade and on into the early 2000s. In addition to the contribution from hardware, software and communications innovations, growth was helped by the "softer" advances in areas like functional reorganizations, enterprise resource planning and value chain optimization. This productivity wave was not quite as robust as that of the 1950s-60s, as you can see from the directional trends in Chart 4. It had already started to wane by the time the Great Recession of 2007-09 upended whatever positive macroeconomic metrics the young millennium had thus far served up.

The Third Wave

You can see from both Chart 2 and Chart 4 that productivity in the post-recession period of 2009 to the present has been well below the seventy year average annual growth rate of 2.2 percent. If we follow the reasoning that, just as in the previous two high-productivity waves, we are simply in a holding period before some of the more recent scientific-technological innovations work their way into the real economy, then we can probably make a reasonable prediction as to where the new productivity gains are likely to occur. The combination of deep machine learning with quantum computing – two separate technologies both on the cusp of commercialization – could plausibly penetrate deeply into almost every facet of the economy – including the many sectors of the service economy that have historically been laggards in productivity.

These are the sectors of course – including health, education and business & retail services – where most of the jobs have been created that cushioned the labor implications of previous productivity disruptions. So the question naturally arises: if these are the sectors in the line of fire for the coming third wave of productivity (which is most definitely an "if" and not a "when"), what will be the source of the new jobs? Can this third productivity wave happen without generating massive unemployment?

There is a robust strain of techno-optimism that blithely dismisses worries about the labor-productivity contradiction. We've survived disruption in the past, and each time something was there to ease the blow. Factories needed bodies when industrialization disrupted the artisanal trades of rural villages and small towns. Big box stores and long term care facilities needed full-time staffers as they expanded across the country. We may not know exactly what will spring up alongside the AI/machine learning/quantum computing revolution, say the techno-optimists, but if we let things take their own course then in due time all will be made clear. But as we explained above, there is no necessary causal connection between productivity in one sector and job creation in another. The techno-optimists' confidence is built largely on the hope that the next disruption will proceed like the two or three that came before.

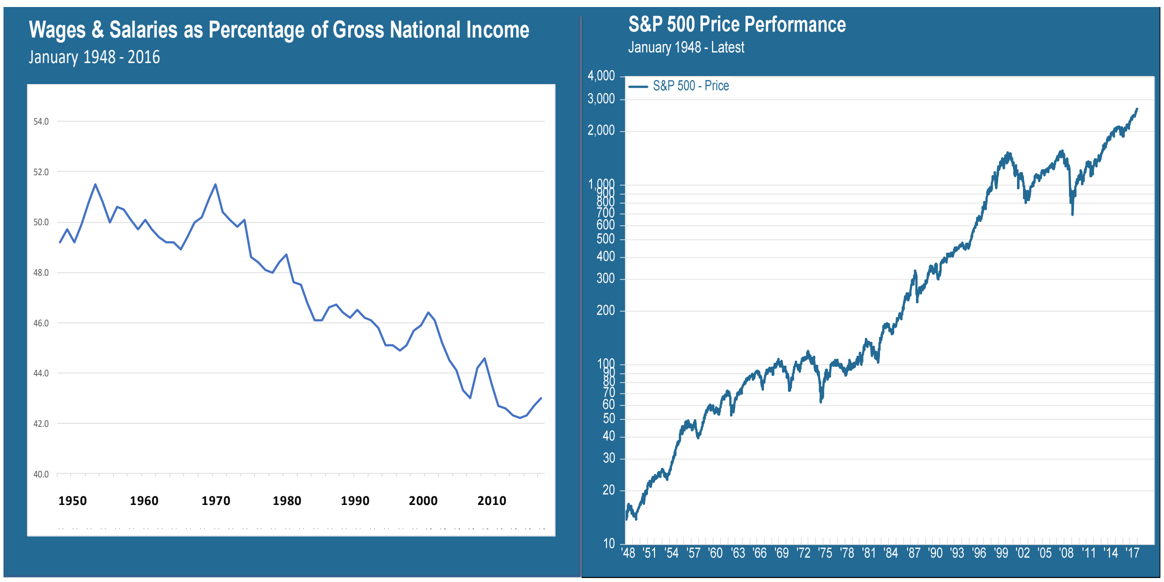
Back to Culture

This brings us back to Daniel Bell and his thesis about capitalism's cultural contradiction. We have filled much of the space in this report thus far explaining why we believe his arguments didn't stand the test of time. The "contradiction" between so-called traditional values and the crassly commercial mindset begotten by the age of mass consumption turned out not to be a contradiction at all, since the only value, ethical or otherwise, possessed by the capitalist system is the mandate to adapt and respond to cultural paradigms in society as they emerge, so as to maximize the profit opportunities therefrom. We then identified the tension between labor and productivity as the potential source of the real contradiction.

But that contradiction also has a cultural aspect to it, one that is showing up in today's world, and is plainly visible in the discontent being expressed by citizens in a growing number of countries around the world. If the mass consumption culture successfully swallowed Bell's "traditional bourgeois economic values," it did so only by delivering on the promise of something the masses greatly desired – and at a cost they could afford. Another phrase for that would be: The American Dream. The tangible benefits of those seminal scientific inventions of the late 19th century were game-changing like nothing else before. Indoor plumbing with hot and cold running water was followed by electrical refrigerators, stovetop ovens, heating & air conditioning systems and home entertainment systems. Not to mention, of course, the automobile. Of course the consumer culture conquered traditional values – it wasn't even close! As recently as the 1990s, it appeared that there was no viable alternative to the mass consumption culture that had by then spread far beyond the borders of the United States to encompass nearly the entire world. The political historian Francis Fukuyama gave a memorable name to this phenomenon: the "End of History." Global economic liberalism would be the last distinct "ism" that outlasted its 20th century rivals. The only dominant question was how long it would take other nations to catch up to the living standards achieved by the US and other developed nations.

In one sense Fukuyama is still right: there is no obvious successor "ism" to the global liberal order that has reigned since the mid-20th century. But in 2017 there was a distinct sense that something was, for want of a better word, off in the world. The promises of the age of mass consumption – the American Dream implanted on the world at large – seemed to be falling short. Perhaps there is no one clear visual image of this discontent, but in Chart 5 below we try to present one. This chart shows a comparison between the share of national income accruing to wages and salaries (leftmost chart) and the price appreciation of the US stock market on the right. Both charts go back to 1948.

Chart 5: Wages as Percentage of Gross National Income; S&P 500 Price Performance



Source: Federal Reserve Bank of St. Louis, Bureau of Economic Analysis, FactSet

In early 2018, more people in the world enjoy the accoutrements of a good quality of life than ever before in history. But the incremental satisfaction derived from, say, the ability to tell Alexa to turn off the porch light pales in comparison to that experienced by the 1950s couple able to afford their first in-house clothes washer and dryer. Or even that of a family's first microwave-cooked dinner in 1970s suburbia. As the incremental rewards of the mass consumption culture have become more mundane, the expectations have become higher. And the realization that most of the gains in the economy in recent decades have accrued to an ever-smaller cohort at the top of the economic ladder (e.g. those whose lifestyle comes courtesy of stock dividends and price appreciation versus those who earn a working wage), the dissatisfaction intensifies.

The system may still work, but a growing plurality feel that it doesn't work for them. That is a cultural contradiction; not exactly the contradiction articulated by Daniel Bell forty years ago, but a contradiction nonetheless. The capitalist system, which has proven itself time and again to be so adept at evolving to meet the changing world around it, will need to pull off another evolutionary feat to avoid, in Bell's words, engendering the "fateful division" in our society.

The Great Leveler

November of this year will mark the centennial anniversary of the end of the First World War. We would do well to think some about the years leading up to that disastrous conflict, for they, too, were full of both continuity and contradiction. The last three decades of the 19th century, and the first of the 20th century, were a time of immense change, including innovations that changed lives in ways not comparable to anything since hunter-gatherer tribes settled into fertile regions of the Middle East and East Asia and built empires on the foundations of organized agriculture. The years 1870 to 1914 witnessed widespread global trade, rapid industrialization and the rising prosperity of nations who chose to join the club.

A war that would ultimately wipe out more than a third of the world's total stock of wealth would have seemed the least rational path for nations to follow in 1914 – and yet follow that path they did. There were many reasons for the outbreak of war, alongside the principal catalyst of the assassination of Archduke Franz Ferdinand in Sarajevo that year. Below the veneer of continuity provided by the engine of global capitalism were the contradictions of uprooted communities, impoverished and polluted inner cities, and the increasingly loud voices of unrest from underpaid laborers, disenfranchised women, and marginalized rural lifestyles. New urban elites, prospering from the change, failed to understand the urgency of those voices and their feeling of displacement.

To be perfectly clear, we do not see a cataclysm on the level of 1914-18 as something likely to occur in the next couple years. But we would be remiss to focus exclusively on the continuity of a prosperous global economy without taking into account the obvious evidence of contradictions in the global culture. Attend any business conference and you will likely hear the word "disruptive" more times than you will care to count. That's usually meant as a compliment – disruptive businesses must be doing something good, to clear out all that chaff that came before. But the typical human response to disruption is to resist, not to embrace. There is unlikely to be a linear path from today to some imagined techno-optimist Nirvana.

So the contradictions are evident, even if we don't know exactly how, when or even if they will play out. Now, in Section II of this report we will talk about the continuity. Much about the economic world at the start of 2018 seems like a continuation of trends we have been analyzing for several years. As you read through our reporting on global GDP growth, favorable tailwinds for corporate earnings and all the rest, keep in mind the contradictions explored in this Section I. They're not too far below the very calm surface of the global economy as it appears today.

II. 2018 Investment Thesis: Things Don't Change, Until They Do

A. Executive Summary

- "Moderate growth, low inflation, improving labor market": this would have been a reasonable way to characterize US economic trends in 2013. And in 2014, 2015 and 2016. So it was not exactly an earth-shaking surprise when 2017 delivered…yes, moderate growth, low inflation and a still-improving labor market, if the latter slowed down just a bit in net new job creation. Tracking the macroeconomy has become something akin to watching daily episodes of *Seinfeld*. Not much of any consequence ever happens, and every now and then some amusing diversion appears to briefly engage one's attention. Try as we might to unearth some new piece of information suggesting the approaching end of this placid state of affairs, we cannot. The data say what the data say. 2018, for the moment, looks set to deliver more of the same.

- The key difference between 2017 and earlier years in this recovery cycle was that the rest of the developed world came on board. Organic demand and consumer confidence perked up in the Eurozone, Britain managed to at least temporarily forestall a reckoning with the consequences of Brexit, Japan stayed positive while ex-Japan Asia Pacific countries did just fine. China, meanwhile, met its growth benchmarks by initially going back to the tried and true mix of debt-sourced spending on infrastructure and property. Beijing reversed course midyear, though, with a concerted program to reduce borrowing and recommit to economic rebalancing (this coincided with a further consolidation of political power by President Xi Jinping). Elsewhere in emerging Asia and beyond, concerns about looming trade wars faded and domestic assets, including long-beleaguered currencies, perked up for a winner of a year. Again – while there are plenty of geopolitical variables that could form into tangible threats at any time – the basic macroeconomic variables appear stable. Markets ignored geopolitics last year, we expect them to do the same in the year ahead.

- Calendar-gazers are filling up the airwaves with the observation that the current recovery – from July 2009 to the present – is one of the longest on record. If we manage to avoid a recession between now and May, the current growth cycle will move ahead of that of 1961-70 as the second-longest, trailing only the ten years of good times from 1991 to 2001. To those nervously ticking off elapsed calendar days we offer two ripostes. First, markets and economies don't pay attention to calendars, which are entirely a human construct. Second, there are potentially valid reasons why the current uptrend could go on for longer. From 2009 to 2014, arguably the main force behind continued growth was the Fed and its quantitative easing mechanics that flooded the world with money. Only more recently has the growth started to look more traditional – more like actual improvements in business and consumer sentiment begetting a virtuous cycle of increased supply feeding increased demand. If anything, the perky demand trends we see today more resemble those of an early than of a late stage in the cycle. The uniqueness of that multi-year experiment in unorthodox monetary policy may make comparisons with other growth periods less meaningful.

- So if the default assumption is that 2018 will be a year of very few changes to the presiding macroeconomic trends, what alternative scenarios could upend the base case? The key X-factor, we believe, is the one that nobody from Fed governors to that fellow holding court at the end of the bar understands; namely, the curious absence of inflation. The inflation rate has fallen short of the Fed's explicit target of 2 percent throughout the entire recovery to date (when excluding the volatile categories of energy and foodstuffs). This despite the dramatic fall in the unemployment rate from 10 percent at its peak to just 4 percent today. The economic models built over the decades following the Second World War baked in the fundamental assumption of a trade-off between inflation and employment: be prepared to sacrifice one in pursuit of the other. That assumption has not held up at all in recent years. But before pronouncing last rites on the Phillips Curve, we again draw your attention to our observation in the previous bullet point: the kind of growth one normally sees early in a recovery cycle may only now be showing up. If so, then a sudden surge of higher than expected inflation would not be entirely implausible.

- The second alternative scenario that could disrupt the smooth sailing of most capital markets asset classes would be, perhaps, the other end of the spectrum from a growth-fueled resurgence of inflation. The Fed intends to raise rates again this year – three times if the stated expectations of the FOMC's voting members are to be believed – and to begin winding down the balance sheet that grew to $4.5 trillion over the course of the QE years. These intentions reflect a confidence that the economy is fully ready to stand on its own two feet – which confidence, of course, proceeds from those same steady macro trends we described a few bullet points ago. But there is still a chance, and not necessarily a small one, that today's bubbly sentiment is ephemeral and will dissipate once the crutch of monetary policy is finally and conclusively removed. Specifically, not one of the three structural drivers of long-term growth – population, labor force participation and productivity – are demonstrably stronger now than they were two years ago when we devoted some number of pages in our Annual Outlook to the concept of secular stagnation. There may be less to the current growth uptick than meets the eye. If so, a Fed misstep on the pace of unwinding easy money – too much, too soon – could be the trigger that boots the Goldilocks economy to the exit door.

- What both those alternative scenarios – an unexpected inflation surge and a Fed policy fumble – have in common is the potential to wreak havoc on credit markets. From an asset markets perspective, credit markets hold the key to how virtually any asset class – debt, equity or alternative – will perform. Here's why. The risk-free rate – in general practice the yield on intermediate / long Treasury notes – is employed in just about every standard asset valuation model. All else being equal, an increase in interest rates has the effect of decreasing the present value of future cash flows. Asset managers will reprice their models if reality outstrips expectations about yields. A likely ripple effect resulting from a Treasury rate repricing would be widened risk spreads (affecting, for example, corporate investment grade and high yield bonds), a pullback in equity prices and a commensurate uptick in volatility. Whether the riskier conditions persist would be situation-specific, but there would very likely be at least some damage done.

- Again, we view these as alternative scenarios to a more benign base case. Even if one of the other were to come to pass, though, it would not necessarily start the clock on a countdown to the end of this long bull market. For that to occur, we believe one of three events would have to emerge: a full-blown recession (which is different in nature from a periodic surge in inflation), a financial crisis such as the implosion of the financial system that led to the 2008 crash, or the outbreak of an actual hot war somewhere in the world that significantly involved the US and/or other large powers. The risk of any of these things happening in 2018 is not zero, but we would ascribe a probability of less than 25 percent to any of them.

- US equity valuations are stretched, particularly for the large cap growth segment of the total market that has consistently outperformed over the past several years. Relying on relative valuations alone would potentially lead investors to other areas, like Europe or emerging markets, that still have some catching up to do even after a strong performance in 2017. In the long run valuations matter – there is no coherent way to view a share price as anything other than the present value of a series of future cash flows. In the short run, valuations don't always matter. Relative geographic performance in 2018 will be subject to other influences, not least of which will be the direction of the US dollar.

- The dollar, of course, was one of the big surprise stories of 2017. Long before equity shares in financial institutions or resource companies snapped out of their "reflation-infrastructure trade" myopia, the US currency had done a U-turn from its rapid post-election ascent. The dollar fell by nearly 10 percent against a basket of other major currencies last year, and that soft trend has continued thus far into 2018. Currency strength was a major force driving performance for developed and emerging market equities and debt last year. Whether a reprise of that trade is in store for the year ahead depends – again – on that tricky combination of alternative economic scenarios. If US interest rates rise substantially, with the ECB and the BoJ at the same time proceeding more cautiously, then a stronger dollar would be a rational expectation as investors pursue higher yields. That outcome is not set in stone, however. Major foreign investors – most notably China – may look to diversify their foreign exchange assets if their perception of US risk changes, which would, all else being equal, have a negative effect on the dollar.

- Commodities may stand on the other side of the dollar's fortunes. A weaker dollar makes commodities more affordable in other currencies; that, along with the return of strong organic demand, may supply a tailwind to a range of energy and industrial commodities. But oil, which has recently surged to its highest levels in three years, remains vulnerable to the prospect of increased shale production in the US. As with currencies, there are many factors at play that could work either for or against key commodity classes.

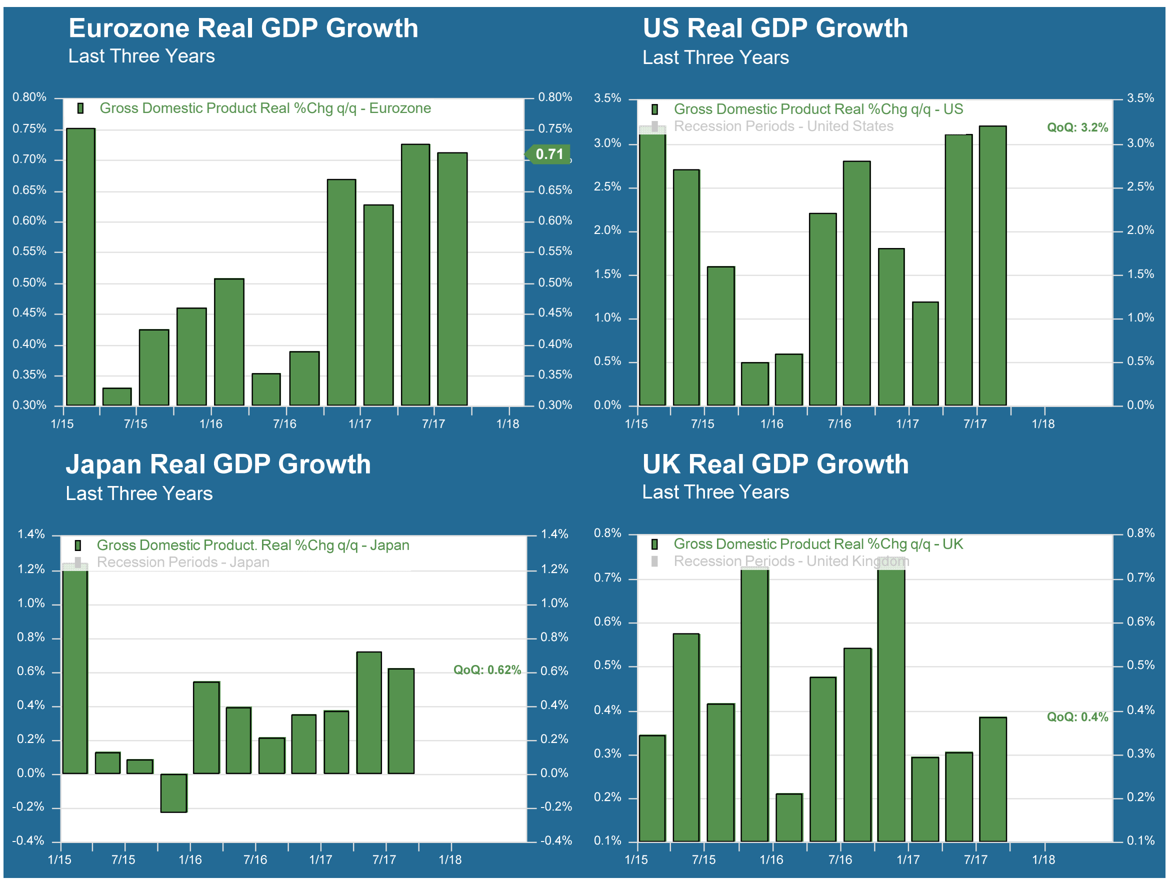
- In conclusion, we could sum up the essence of our views thus: Things Don't Change, Until They Do. The benign tailwinds of moderate, steady global growth will not last forever. Neither we nor anyone else can point with certainty to the date when the sea change happens. What we can do is pay close attention to the things that matter more. Farmers know how to sense an approaching storm: the rustle of leaves, slight changes in the sky's color. In the capital marketplace, those rustling leaves are likely to be found in the bond market, from which a broader asset repricing potentially springs forth. Pay attention to bonds in 2018.

B. State of the Global Economy

i. The Harmonious Convergence

What kept almost every major asset class moving so steadily upward in 2017? Chart 6 below illustrates one of the go-to explanations financial pundits repeatedly invoked to explain the era of good feelings: the convergence of developed economies into a rhythm of moderate, predictable growth. As the year wore on, the numbers looked especially promising in the US, while a slackening in the pace of growth in the United Kingdom raised the looming specter of Brexit. But overall, investors had no empirical reason to fear a turn in the economic cycle from growth to recession. This macroeconomic context of moderate growth set the path of least resistance for most risk assets as being upward.

Chart 6: Real GDP Growth in the Eurozone, US, Japan and UK



Source: FactSet, MVF Research

Throughout the developed world, this moderate pace of growth is accompanied by stable labor markets and modest inflation (we will have more to say about the latter below). In 2017 a sense returned to many observers that the growth was organic, with end-market demand from consumers and a stepped-up pace of investment by companies. This stands in contrast to the perception in prior years that the only thing keeping parts of the developed world from falling back into recession was the coordinated monetary stimulus efforts of, principally, the Fed, the European Central Bank and the Bank of Japan. But the Fed ended its quantitative easing program more than three years ago, while the ECB and BoJ have both hinted that the time frame on their respective programs might be shorter than previously announced. One of the key developments we will keep an eye on as the year progresses is whether the monetary mandarins in Europe and Japan feel ready to take off the training wheels. But consider that, for example, the pace of GDP growth in the US perked up even as the Fed raised rates three times and has stated its intention to see through another "three-peat" in 2018.

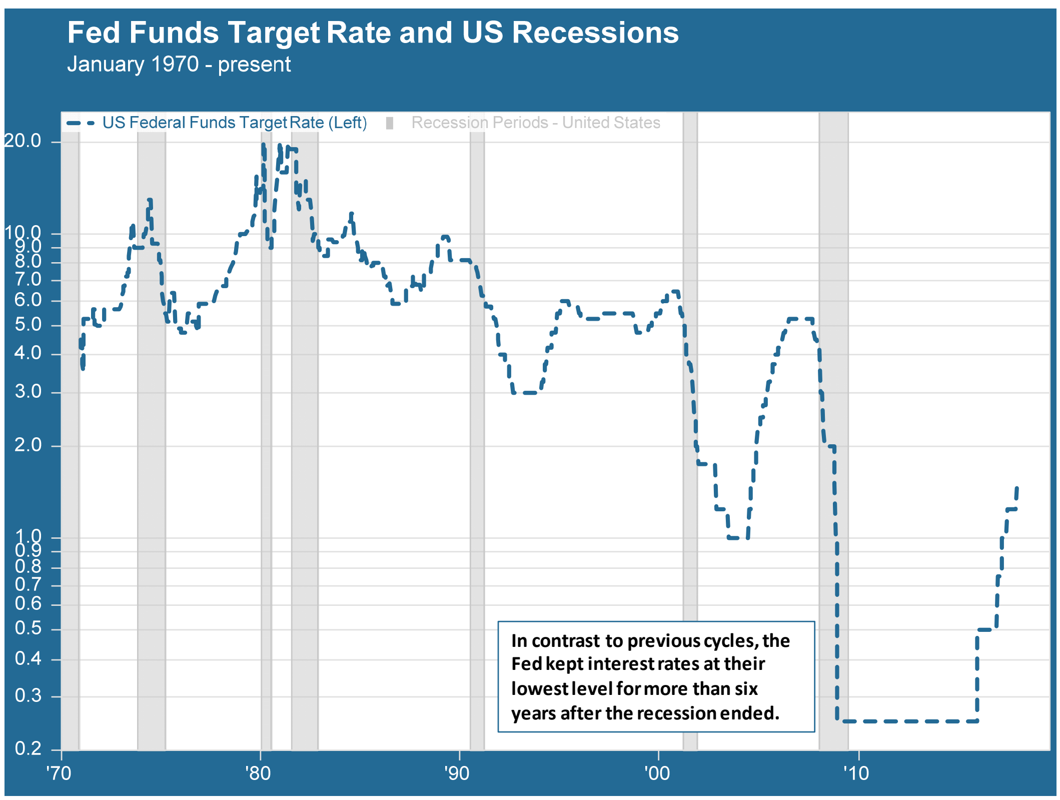
In the Eurozone, overall economic sentiment is at a ten year high while consumer borrowing surges and unemployment continues to fall. In the US, the contribution of capital investment by small businesses to total GDP reached its highest level since 2000. These are the kind of metrics that suggest this recovery really does have a fundamentally organic component to it. Coupled with similar demand-driven recovery patterns in emerging markets, the horizon for this phase of the economic cycle continues to look relatively promising.

ii. The Nervous Calendar Crowd

The preponderance of data suggesting the global economy still has a ways to run does not, of course, stop some observers from worrying about the end being nigh. To underscore their concerns, these pundits turn to the calendar. The current recovery cycle in the US, we are told, is about to become the second-longest on record. In May 2018 this recovery will move past that of 1961-70, and will then trail only the boom times of 1991-2001 as the longest ever. If the US tips into recession, the thinking goes, the world will follow.

But economies don't peter out for no reason, least of all because they reach some notional expiration date on the calendar. In the case of the current recovery, we believe there could be a very good reason why the expansion could even surpass the golden '90s in length. That reason is the historically unique monetary policy experiment the Fed ran in the first five years of this growth cycle. Consider Chart 7 below, which shows the US Fed Funds rate alongside recession / recovery cycles going back to 1970.

Chart 7: US Fed Funds Rate & Recession / Recovery Cycles



Source: US Federal Reserve, MVF Research, FactSet

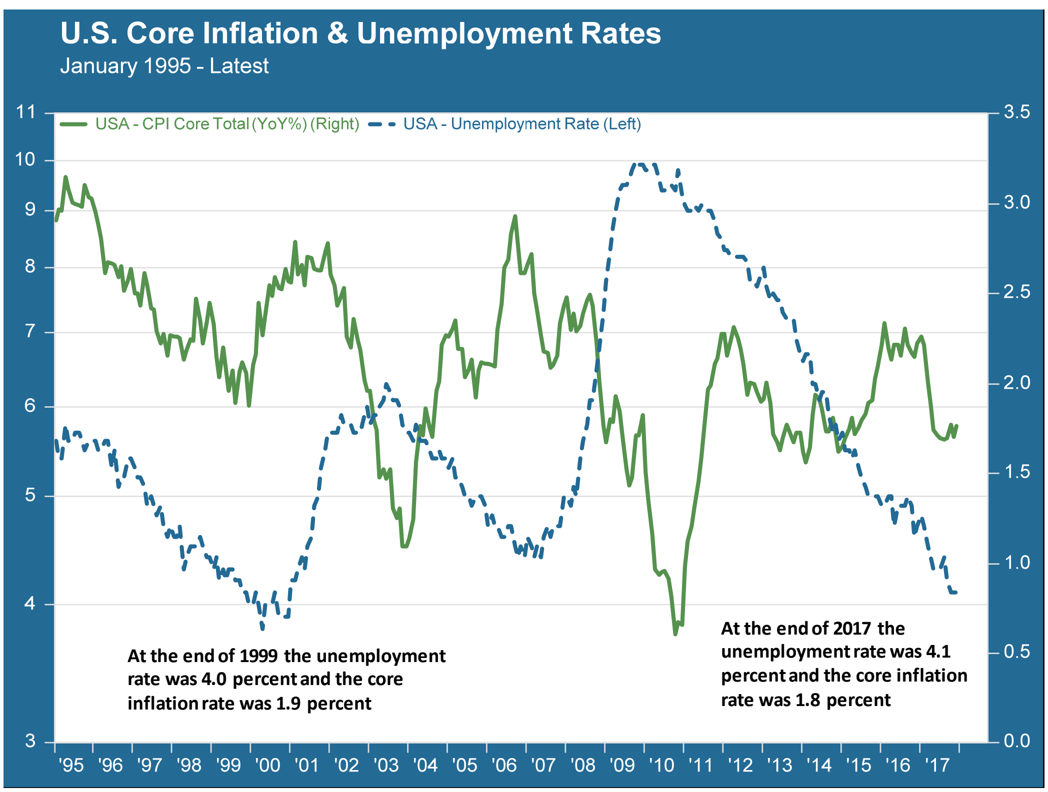
Here's why we think the perspective afforded by Chart 7 is important. In prior recession cycles (the light gray columns represent each official recession since 1970) the Fed brought the Fed funds rate down to the level it deemed appropriate to re-stimulate the economy, with the low point happening either in the recession's late stages or after it ended (typically a recession's end date is not known with certainty for at least several quarters after growth starts to tick back up). As Chart 7 shows, the Fed normally started to raise rates again fairly quickly, and the economy continued to expand while rates rose.

In contrast to the normal pattern, the Fed held rates at zero for more than six years after the end of the 2007-09 recession, during which time it also pumped trillions of dollars into the economy via quantitative easing. In effect, a "normal" recovery – meaning one with neither artificial stimulus nor zero rates – for the current cycle only really began in early 2016 (the Fed raised rates for the first time in December 2015). The normal pressures that hasten the end of a growth cycle – overheating production capacity, accelerated wage and price inflation etc. – are not in evidence today. Whatever else we may be concerned about, the calendar timing of this growth cycle is not high on the list.

iii. The (Non) Inflation Factor

The one fly in the ointment among the otherwise-benign macroeconomic headline data as 2018 gets underway is inflation – or rather, the lack of inflation. Much has been made of this so-called conundrum over the past months. If you don't understand how most inflation measures can persist below the Fed's modest 2 percent target, even when the unemployment rate is just 4.1 percent – fear not, you are in good company. Fed members themselves, including outgoing chair Janet Yellen and incoming chair Jerome Powell – also don't have a ready answer for this puzzle. Yet this is not the first time for heads to scratch in puzzlement at the Eccles Building on account of the coincidence of low inflation and near-full employment. As chart 8 below shows, the same phenomenon was in effect during the growth period of the late 1990s.

Chart 8: Core Consumer Inflation and Unemployment Trends



Source: Bureau of Economic Analysis, FactSet, MVF Research

Chart 8 shows the similarities between 1999 and 2017 in comparing unemployment to inflation trends. Bear in mind that we are looking at core inflation here, so the more volatile impact of energy and food prices are not present. In the late 1990s, inflation and unemployment both trended down during what, as you will no doubt recall, was a period of strong overall economic growth. It was not until early 2000 when inflation finally trended up – and shortly thereafter unemployment also started to rise as the bursting of the technology bubble signaled the onset of the 2001-02 recession.

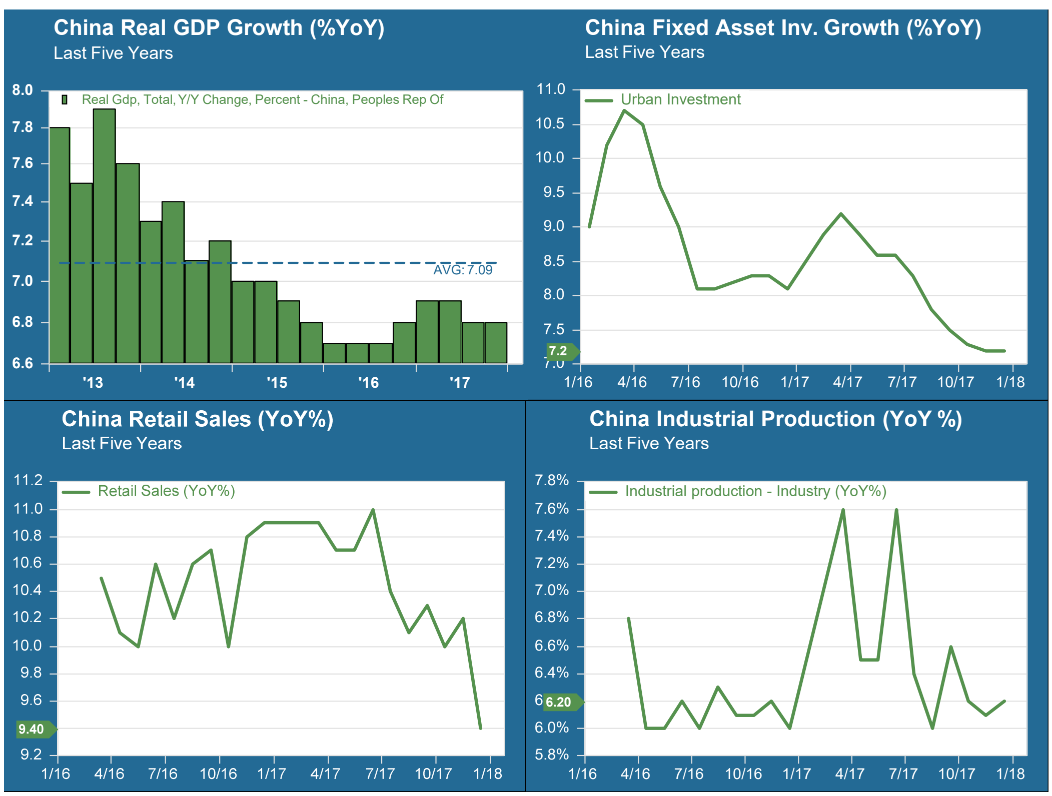
There still is no definitive agreed-upon explanation for why prices and jobs both delivered good news in the late 1990s, though some economists point to the relatively new effects of global supply chains and higher ensuing productivity. What we do know is that at the end of 1999 core inflation stood at 1.9 percent with the unemployment rate at 4.0 percent. That is remarkably similar to the respective levels of 1.8 percent and 4.1 percent attained in December 2017.

Now, we cannot draw any definitive conclusion here as to whether an inflationary spike is close at hand (as in March 2000 when core CPI jumped to 2.5 percent while unemployment remained at 4 percent) or whether prices and the jobless rate will continue to fall in tandem for a while longer as they did throughout much of the late 1990s. We have not seen a sudden spike in average wage growth – yet we hear more and more corporate chief executives announcing add-on bonuses and increases to their minimum wage rates. We should not rush to preemptive judgment – yet we should be prepared for potential negative surprises in credit markets if an inflationary surge suddenly appears. We discuss this in further detail below.

iv. China: Slowing for All the Right Reasons

While the macro story in developed economies focuses on the pleasing trend of better than expected growth, the narrative in China – the world's second largest economy – is positive for a different reason. Real GDP growth is slowing slightly, with expectations that it may slow further still. But for reasons including several illustrated in Chart 9 below, that slower growth is mostly welcome news.

Chart 9: China GDP and Related Key Output Drivers



Source: MVF Research, FactSet

First of all, 6.8 percent (the year-on-year growth rate for both Q3 and Q4 2017) is by no means pokey given that the world economy is believed to have grown 2.9 percent last year. But in Q4 net exports from China – a good metric for global demand trends – contributed more to GDP than at any time since the 2008 recession. And in the second half of the year China's economic policymakers introduced new methods to slow down credit growth. This had the immediate effect of drastically cutting the growth rate for fixed asset investment and industrial production, as Chart 8 shows. This is good news because it implies that whatever growth does occur going forward will depend less on the artificial stimuli of infrastructure and property development that China has relied on in the past to meet its growth targets.

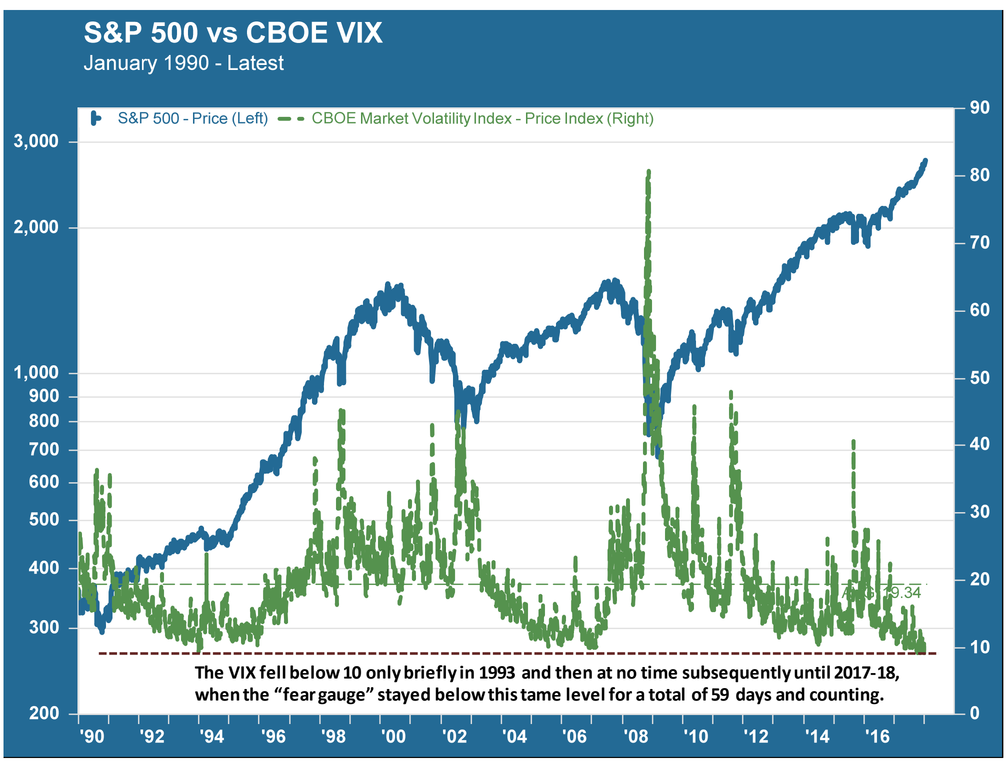
Yes – the slowdown in credit growth also impacted retail sales, which fell from growth in the low double digits last summer to just under 9.5 percent at the end of the year. But consumer demand will likely continue to expand as Beijing gets back to its longstanding intention of rebalancing the economy. President Xi Jinping consolidated his already considerable power in a series of moves in the second half of last year and has little to worry about politically. A stepped up pace of economic reform tops the list of the government's priorities. China is certainly not without risks, not least of which is the still-massive debt overhang amounting to more than 250 percent of GDP. But the threat to world markets from economic stumbles in China is, we believe, quite a bit lower than it was two years ago.

C. State of the Capital Markets

i. The Calmest of Calm Ponds

In a year that was remarkable for almost any major asset class you can think of, perhaps nothing quite defined the spirit of the year as did the preternatural calm that accompanied major equity markets to record highs while boosting the fortunes of commodities, emerging market currencies and others in tandem. Chart 10 below shows that volatility in US stock markets was meaningfully lower than at any time in decades.

Chart 10: S&P 500 and CBOE VIX (Volatility Index)



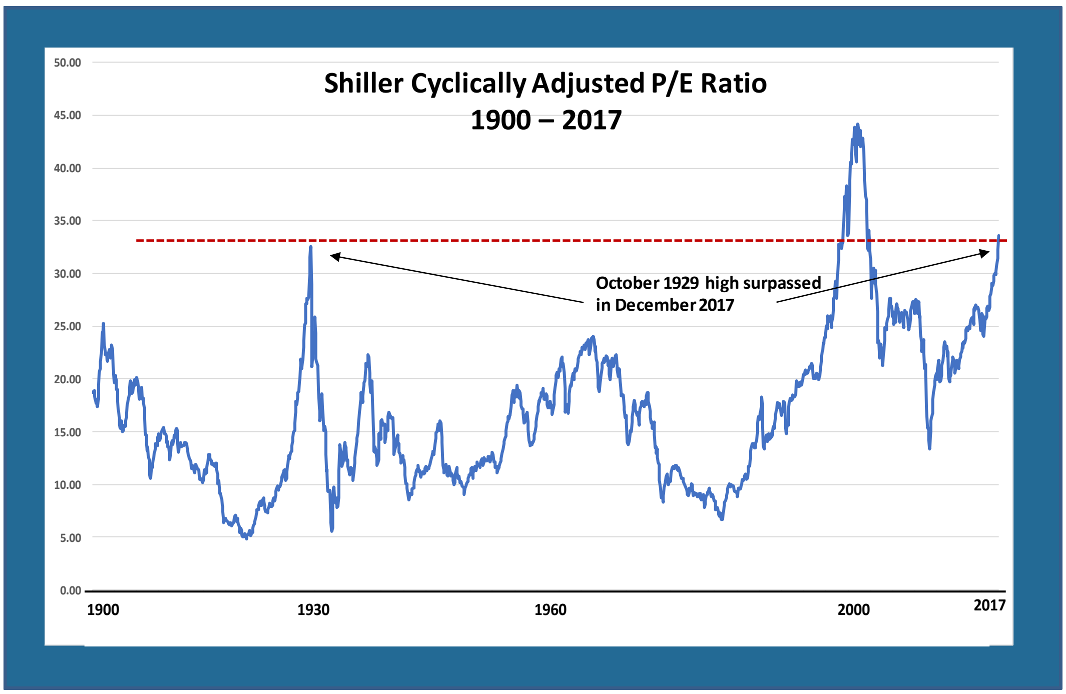
Source: MVF Research, FactSet

Given our extensive discourse in Section I of this report on the sense of things being somewhat off kilter in the world since 2017, this abject calm in risk asset markets would seem surprising. What is causing the mellow vibe? We think a handful of factors are at play, most of which we address throughout this Section

II of the report. The generally good economic news around the world we discussed above, along with favorable tailwinds for corporate earnings, and the ongoing belief that central banks will be accommodative whenever needed all help put a floor on downside pressure. Pullbacks in 2017 were remarkably brief and shallow; the S&P 500 never got anywhere near the kind of 5 percent retreat from a previous high we deem significant, let alone a 10 percent pullback that would constitute a technical correction. "Buy the dip" is a time-tested Wall Street adage – but last year the dips were so shallow as to be barely recognizable.

Stocks enjoyed a nice tailwind from earnings in 2017, but earnings per share growth was not strong enough to keep stocks from ever more expensive valuations. In December, the S&P 500 performed the noteworthy feat of becoming, by one widely used measure, more expensive than the market peak of October 1929, right before the crash that ushered in the Great Depression. Chart 11, below, shows the Shiller Cyclically Adjusted P/E (CAPE) ratio from 1900 to year-end 2017. The CAPE adjusts earnings over longer cycles to smooth out short-term anomalies.

Chart 11: Shiller Cyclically Adjusted P/E Ratio



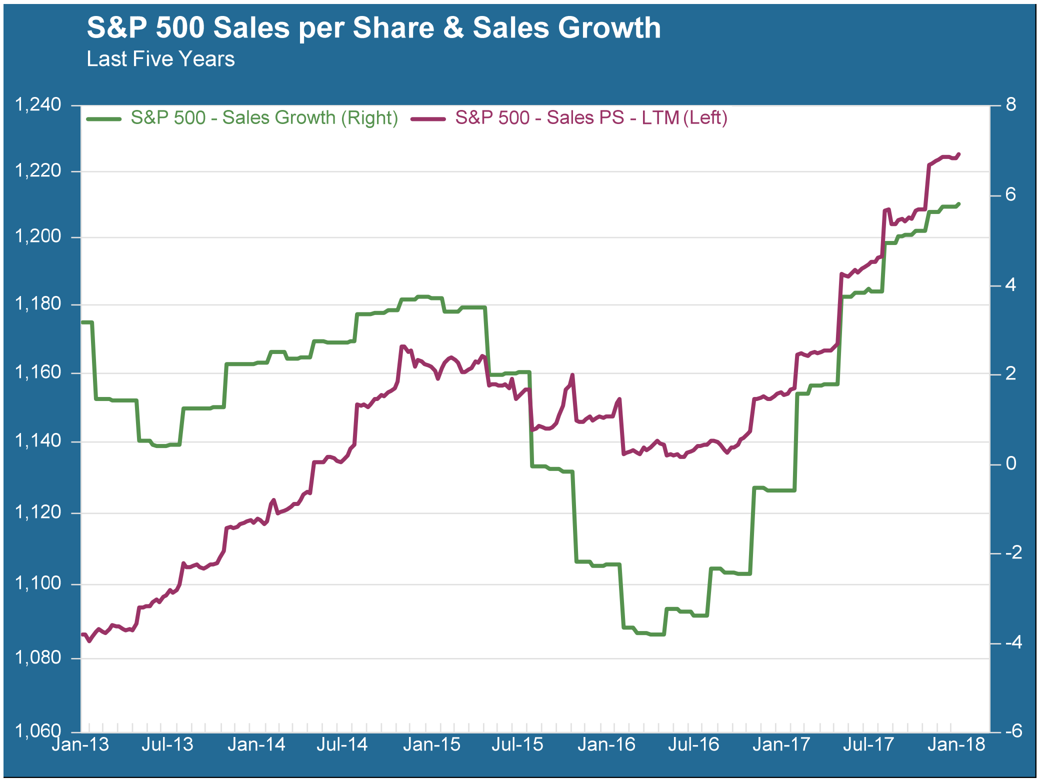
Source: Robert Shiller Online Database (Yale School of Management)

By breaking through the 1929 high, the current market becomes the most expensive in US stock market history excepting only that massive technology bubble at the end of the 1990s. The CAPE ratio is currently much higher than it was, for example, right before the 2007-08 downturn and even farther from the frothy "Nifty Fifty" days of the mid-1960s.

So will nosebleed valuations be the catalyst to upend the calm waters of US equities in 2018? It's always possible, but we would caution you to refrain from using the CAPE, or any other valuation measure, as a timing tool. Bear markets do not happen just because valuation indicators say they are expensive. It was late 1997 when the CAPE surpassed the 1929 high for the first time – and it took more than two years after that for the bubble to burst. Investors who cashed in and stayed home for the last two years of the 1990s missed out on a significant growth run.

We would add one more point to this valuation analysis. Over the course of 2017 it was not just earnings – the bottom line – that grew at a brisk clip. Top-line sales grew as well, reversing a multi-year trend of flat or negative growth. Chart 12 below shows this turnaround, with steady gains both in the dollar value of sales per share and the year-on-year sales growth rate.

Chart 12: S&P 500 Sales per Share and YoY Sales Growth



Source: FactSet, MVF Research

Sales are in some ways a more important indicator of economic health than earnings. Companies are able to manipulate their bottom lines, to a certain extent, through a number of accounting gimmicks that show up with increasing frequency the further down the income statement one goes. By contrast, the "top line" presents a more or less unbiased look at how much stuff a company is able to sell, and at what price. The takeaway from recent trends is that companies are experiencing positive uptrends in demand for their products and services.

As we noted earlier in this report, there is an argument to make that from about mid-2016 to the present the nature of the recovery started to become more like a familiar, organic cyclical upturn in demand, rather than the artificial construct of central banks with unconventional monetary policies. As long as these trends continue, the rationale for continued growth in equity assets should continue to make sense – even at today's ultra-expensive valuation levels.

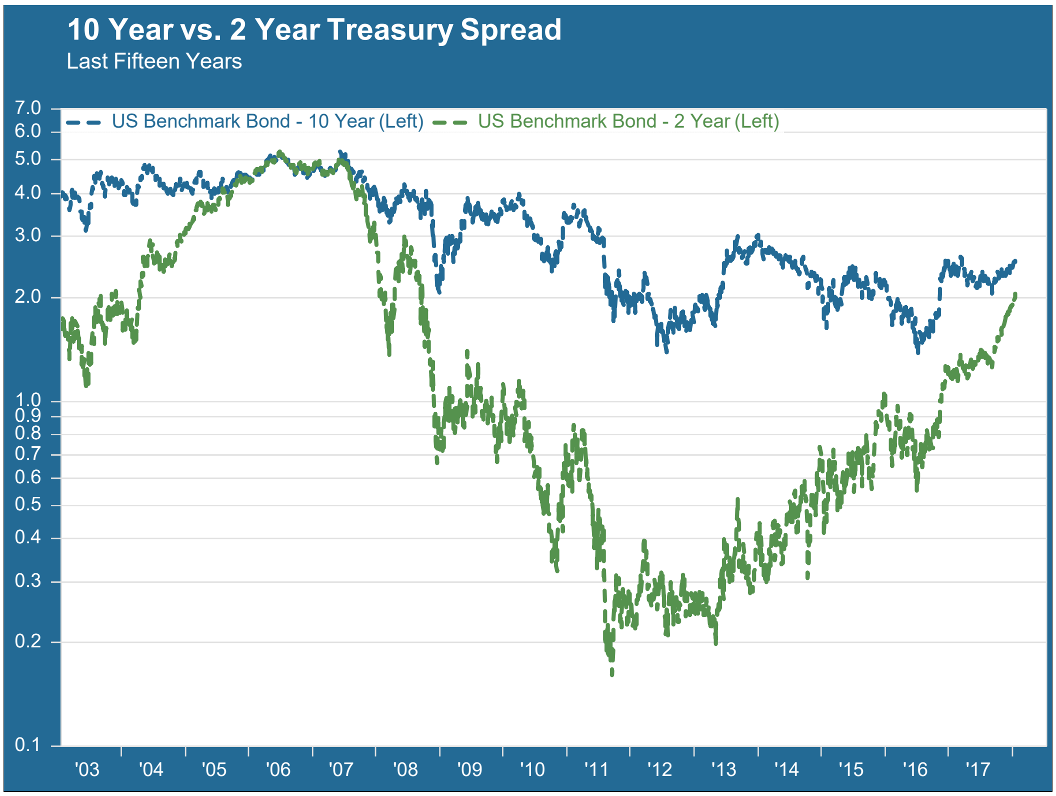
ii. Credit Markets: The Fly In the Punchbowl?

If our conclusions above appear somewhat Pollyanna-ish, never fear. There are plenty of ways the good times in the market could face an abrupt reversal (though we will spend some time a bit later on to explain why most reversals do not portend the worst). In our analysis of the global economy we talked a bit about alternative scenarios that could inflict some damage onto asset markets, including a possible inflationary surge if wages and prices fall into an accelerated feedback loop. The place to track the potential likelihood of any such developments is the market for fixed income securities.

Reading the fixed income tea leaves is particularly challenging right now, because the data are giving conflicting signals. On the one hand, both short and intermediate-long term rates are up relative to where they have been in recent months. A number of prominent bond market pros have been visible in the news recently calling the end of the secular bull market for bonds – a bull that goes all the way back to 1982.

On the other hand, most of the upward action to date has been on the short end of the yield curve. The strong upward direction of short term rates should not come as a surprise – they have accompanied the five rate hikes engineered by the Fed since the end of 2015. Currently the spread between 10-year and 2-year Treasury yields – a widely used proxy for the shape of the yield curve – is close to its lowest levels since 2007 (when the yield curve went on to invert ahead of the forthcoming recession). Chart 13 below shows the trend of the 2-10 spread over the past 15 years.

Chart 13: Yield Trends for 10-year and 2-year Treasury Notes



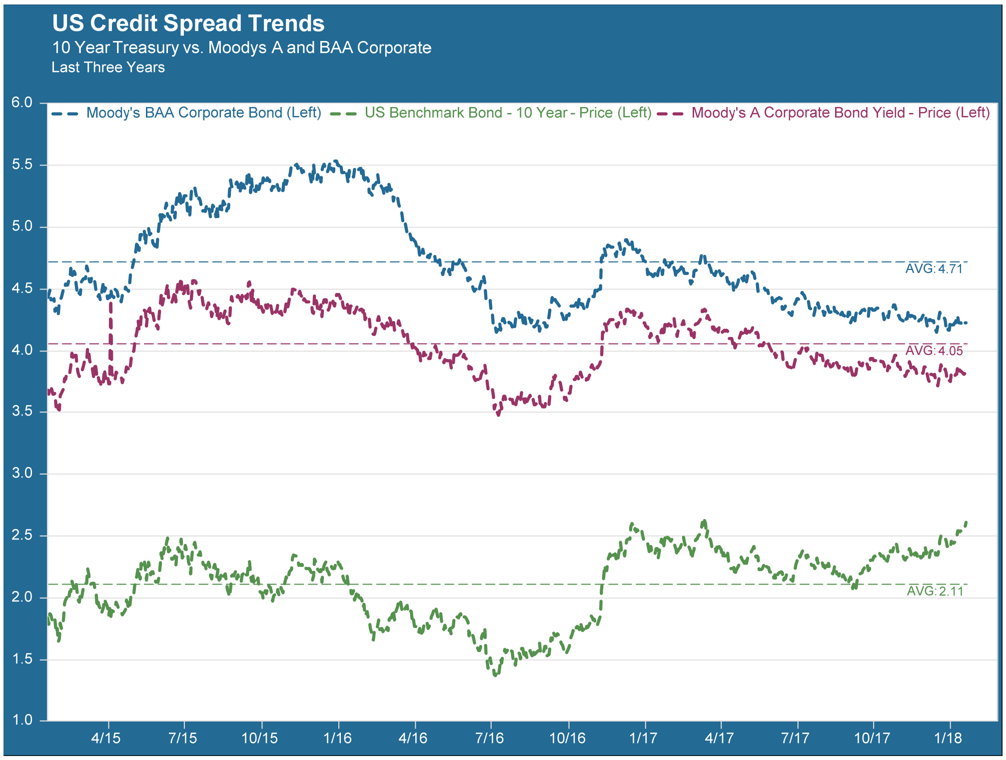
Source: MVF Research, FactSet

A bond guru looking at this chart might be inclined to think one of two ways. On the one hand, the guru would feel nervous about the flattish yield curve, remembering well that in the past, a flat curve could go on to invert and signal an oncoming recession (2007-09 being the most recent example). On the other hand, the flat shape of the curve also suggests that other factors – most especially sustained demand from major foreign investors as well as muted inflationary expectations – are keeping a lid on rates at the longer end of the curve. It's a sudden rise in those intermediate-long yields that could precipitate the kind of massive asset repricing we have talked about elsewhere in this report, since these are the standard proxies for the risk-free rate used in valuation models.

So – our hypothetical bond pro concludes – we don't want to see the curve invert, because that could mean recession. But we don't want to see the 10-year yield go screaming up north of 3 percent either, because that could imply that nasty asset repricing and subsequent pullback in risk assets. In an ideal world things would stay just as they are now. Can they? That will be the question on many minds for whom the 2-10 spread is as much a part of the daily info digest as the Dow is for the amateur stock punter. One of the more notable things to happen so far in 2018 was a rumor that came out on January 10 to the effect that China's monetary authorities were planning to reduce their purchases of US Treasuries, perhaps as a way to diversify their foreign exchange reserves. The kerfuffle died out fairly quickly, but not before Treasury yields spiked almost instantaneously. The hair trigger response to an unsubstantiated rumor hints at the current nervousness palpable among bond traders.

Other bond market data, however, suggest that the urge to panic may still be very premature. In addition to interest rate risk – what we spent the last several paragraphs describing – there is also credit risk. Credit risk is also expressed with the metric of spreads – in this case, the spread between riskier assets and benchmark risk-free proxies. With that in mind, consider the credit spread trend between benchmark Treasuries and investment grade corporate bonds. Chart 14 below illustrates this trend.

Chart 14: Investment Grade Credit Spreads (Moodys A and Baa) to Treasuries



Source: MVF Research, FactSet

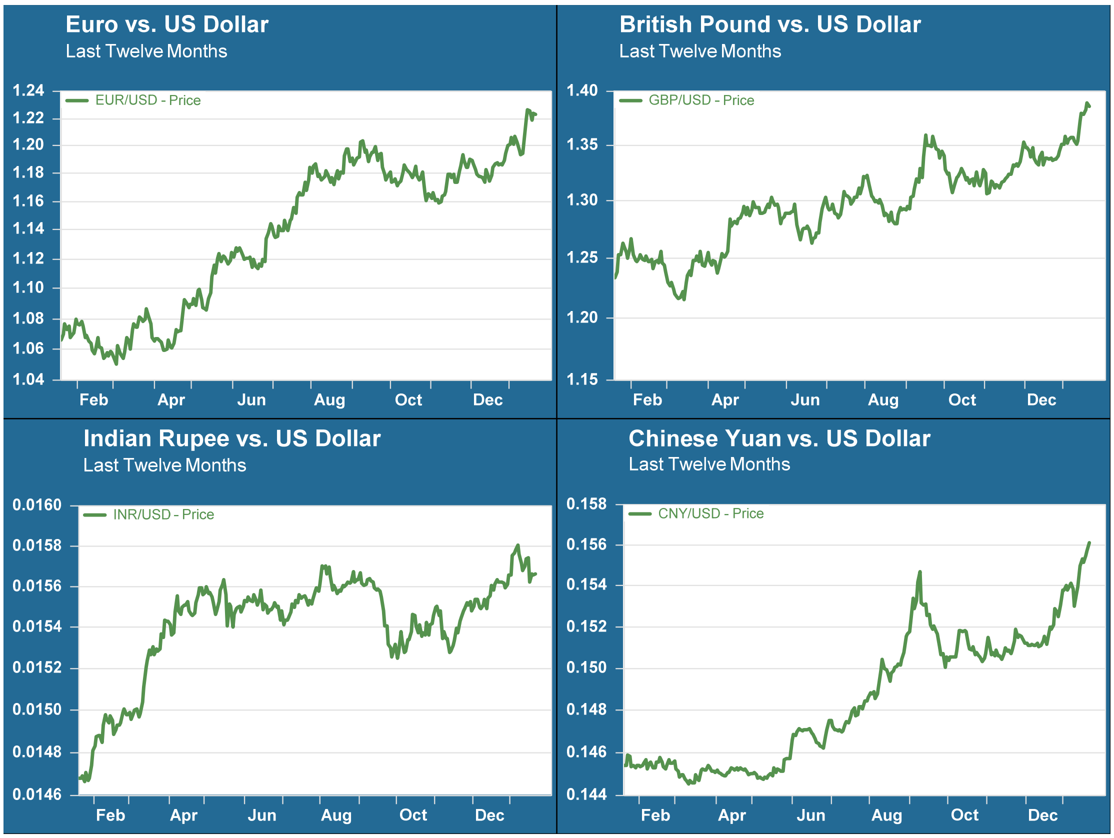
The takeaway from this chart is that current spreads are narrow. Both the corporate A and Baa bonds (Baa is the lowest investment grade rating from Moodys) are yielding below their three year averages and have trended lower in absolute terms over 2017. By contrast, the 10-year Treasury yield is well above its three year average. Contrast this with the widening spreads we saw in the second half of 2015 as investors became nervous about China and riskier asset classes pulled back.

What to make of all the conflicting messages from this data? To return to the theme we have already discussed at length, we think most roads lead back to inflation. If economic growth picks up enough to bring about an inflationary surprise, then we could expect more trouble from interest rates. Likewise if rumors of purchasing pullbacks by foreign investors turn into substantiated facts, or if the first year of the Powell Fed serve up monetary policy decisions no one was expecting, similar to the surprising moves of the Greenspan Fed that roiled markets in 1994. None of these outcomes are givens, though. Watch the bond market – but don't try to outguess it or react impulsively to the daily headlines.

iii. The Strange Case of the US Dollar

At the end of 2016 financial pundits could not stop talking about the so-called infrastructure reflation trade, which smiley news anchors inevitably christened the "Trump trade." This misguided investment idea – basically that the newly elected administration would unleash a wave of growth and spending (including more than a trillion dollars of infrastructure spending) that would push up financial stocks, interest rates, the US dollar and much more besides – has served one useful purpose. It is a self-contained tutorial on how not to approach investing for the long term. The trade in its entirely would fizzle out before the end of 2017's first quarter, but the first asset class to jump ship was the dollar. Having been bid up high by Trump-traders in the last two months of 2016, the dollar reversed course in January and proceeded to fall mightily against a plethora of other currencies, covering the spectrum from developed to emerging markets. Chart 15 below illustrates the greenback's woes against the euro, British pound, Indian rupee and Chinese yuan.

Chart 15: US Dollar versus Selected Foreign Currencies



Source: MVF Research, FactSet

If reversing the reflation trade was logical, it is not entirely clear what logic was behind the ensuing twelve months of dollar weakness. Bear in mind that this was a time period in which the Fed raised interest rates three times, the US economy grew at a slightly above-trend clip and other developed regions, notably Europe and Japan, kept up the pace of flooding their own markets with euros and yen (which, all else being equal, should have had a weakening effect on their currencies). In other words, conditions would have seemed right for the dollar to settle back into a firm trading pattern after correcting for the excesses of the reflation trade.

Instead, currency traders appeared to focus more on the performance of other markets relative to expectations. Some reversion-to-mean activity also seemed to be at play. In emerging markets, for example, the reversal of Trump trade myopia caused investors to take a second look at an asset class that had been beaten down in recent years. Emerging markets debt and equity assets fell into favor in 2017, outperforming their developed market counterpart. Strength in EM currencies, while not entirely due to sudden positive portfolio capital flows, was a natural outcome of this trend.

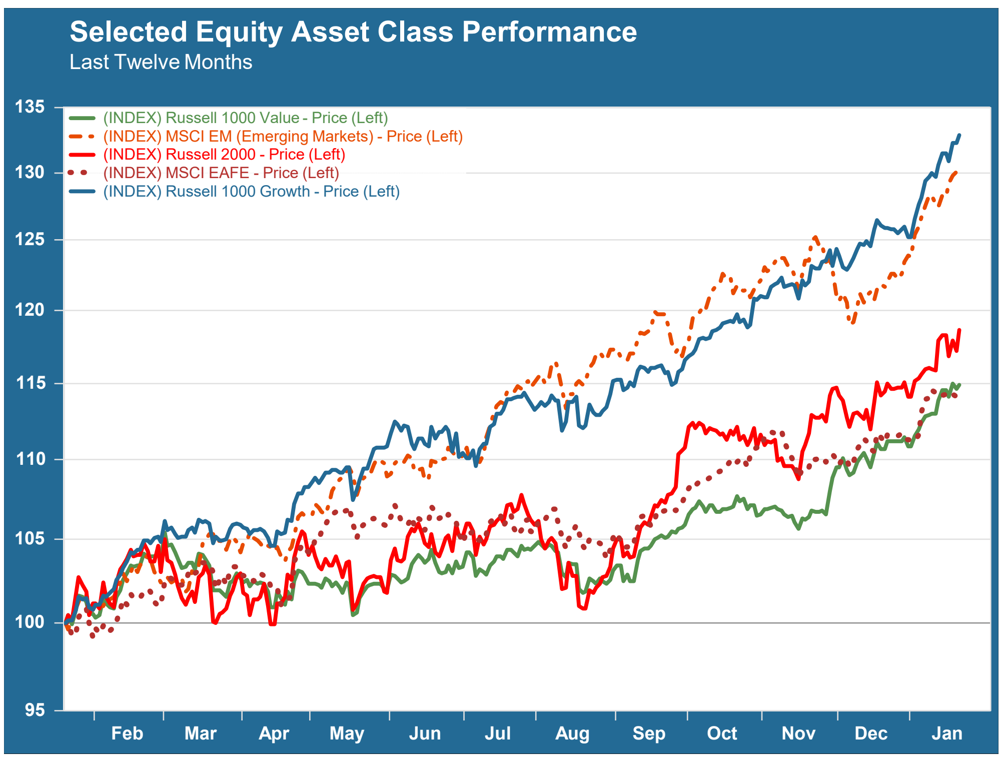
There is some talk afoot in markets about the dollar losing some of its longstanding pre-eminence as the world's reserve currency. Some of the recent weakness, and the prevailing bearish take on the greenback investors have at the start of 2018 – may flow from this general sense that the realities of an increasingly multi-polar global economy are not properly reflected in the persistence of the dollar at the top. Stories like the rumor about China reducing its US bond purchases that we discussed above feed into that sentiment.

The problem with that argument is that there still is no viable contender for a place in the sun next to the dollar. Neither the euro nor the yen have the wherewithal to fulfill global ambitions, nor, yet, does a Chinese yuan still constrained by intrusive regulations and restrictions. We don't see much ourselves to argue either a strong bull case or a strong bear case for the dollar. The fundamentals would seem to support a stronger dollar (GDP growth, uptrend in interest rates, Fed tightening), but a somewhat directionless year may be in store while the longer term structural implications remain unclear.

iv. Asset Allocation: Six of One, Half Dozen of the Other

Most risk asset classes did well in 2017. For those inclined to employ aggressive tactical (read: market timing) methods to constantly reposition between asset class weightings based on short term market movements, the year proved to be even more challenging than most. We've already spent enough time lecturing over the folly of the "Trump trade" – investors who jumped into US financial stocks and dumped emerging markets in November 2016 got a rude awakening early the following year. Investors who stuck with overweight positions in mega-cap tech stocks would be rewarded at year end, but they would have to have had the fortitude to stick through several sharp reversals throughout the year.

Chart 16: Selected Risk Asset Class Relative Performance



Source: MVF Research, FactSet

In Chart 16 above we show the performance of a selected number of major portfolio asset classes: US large cap value and large cap growth, US small cap, non-US emerging and non-US developed markets. We represent the non-US asset classes in their own local currencies, not the US dollar, so as to ignore the currency effect (non-US asset classes benefitted from a weak dollar in 2017). The winners were US large cap growth and non-US emerging markets, while non-US developed, US value and small caps all trailed.

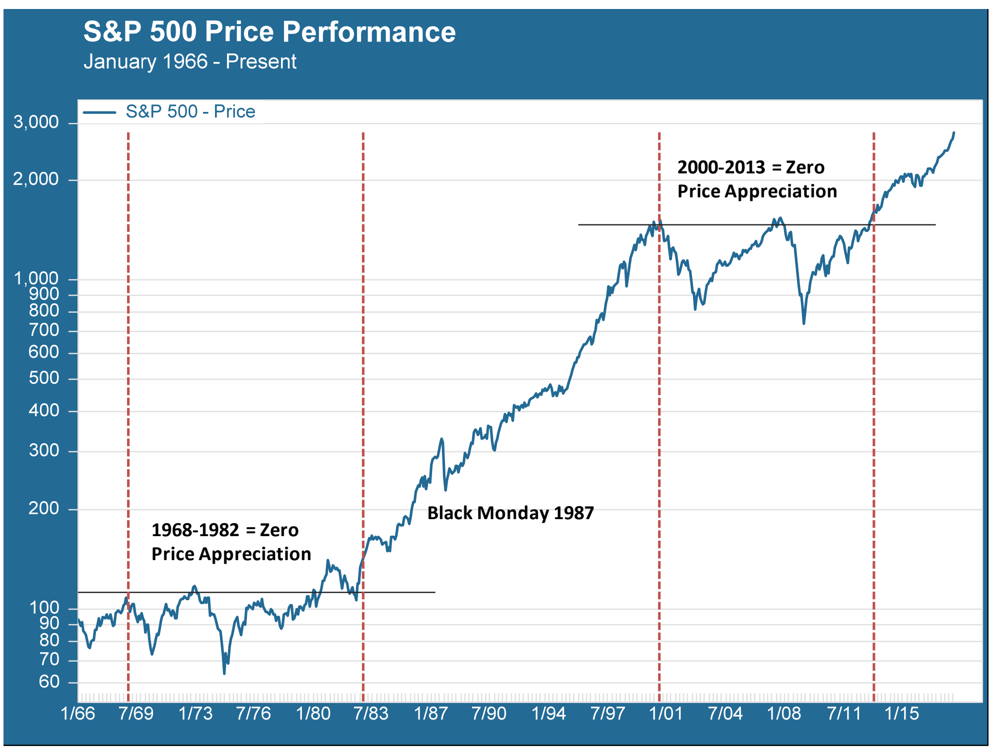
Asset allocation practitioners find ourselves at something of a crossroads, where the theoretical underpinnings of our practice are challenged by the hard realities of the past quarter century. Over this time period – 25 years – growth equities have outperformed their value counterparts. Small caps have slightly outperformed large caps on an absolute basis but have underperformed when taking underlying risk into account. And emerging markets have been a long-term bust relative to US blue chips, both on absolute and risk-adjusted terms.

All these realities are inconsistent with the models put forth by modern portfolio theory and attendant risk-return analysis. In the case of small caps and emerging markets, taking on additional risk has not produced commensurate long-term returns. And the "value effect," treated for much of the modern portfolio era as the closest thing as exists in finance to canonical law, has showed itself to be more fragile than expected. Portfolio managers, including ourselves, cannot ignore these inconvenient realities, even as we maintain a commitment to prudent asset class diversification. The investment world is not getting easier.

D. Our Concluding Thought: Melt-ups, Pullbacks and Human Nature

So here we are, in the second half of the first month of 2018, deep into what is officially termed the second-longest bull market in stock market history, amid conditions that by some measures are less volatile than ever. That includes the longest streak of consecutive trading days by the S&P 500 without a pullback of 5 percent or more, the lowest volatility ever recorded on the CBOE VIX index (the market's "fear gauge") and the lowest internal standard deviation (again, on the S&P 500) since 1963-64. Thus far, this rally has been remarkably absent of emotion (popularly dubbed the "most hated bull in history" by media wags). If history is any guide, though, emotions are due for a comeback in 2018; namely, the old standbys of fear and greed.

Chart 17: S&P 500 Price Performance



Source: FactSet, MVF Research

Readers familiar with our past writings will recognize Chart 17 as a snapshot of what we call "growth" and "gap" markets. This particular snapshot covers the period from 1966 to 2018. Two gap markets fall within this period. The market experienced zero price appreciation from November 1968 to August 1982, and again from March 2000 to April 2013. In between these two events was a long growth market with cumulative price appreciation of more than 1,300 percent, punctuated only by the very short-lived bear market that followed the Black Monday market crash in October 1987.

The point we are making with this final thought – which we would hope for you to keep in mind as you contemplate the current situation – is that long, painful gap markets don't just appear out of nowhere. The stagnation of the long 1970s came about as the US found itself unable to maintain the commitments it had made at the end of the Second World War as the sole surviving economic power. The gap market of the 2000s was a somewhat different animal, driven more by financial excesses that caused, rather than being caused by, economic stagnation. In both instances, though, investors who paid close enough attention could see that things were amiss (even if they could not necessarily predict how the respective crises would unfold).

These chronic gap markets, then, are different from the shorter term pullbacks that more frequently crop up. On average, the S&P 500 has retreated by 5 percent or more on a single trading day about four times per year since the beginning of the 20th century. So the current hot streak is a definite anomaly. We can see those two competing emotions of fear and greed facing off against each other – greed powering the "melt-up" where the only compelling rationale is FOMO – fear of missing out. This seems to be the ascendant emotion in early 2018 as the market rips from one all-time high to another almost every day.

But fear will never be too far away from the greed impulse. Are you worried that stocks have gone for so long without any kind of a meaningful pullback? Remember two things. First, the market doesn't mark off calendar days. There is no fixed expiration date for any directional trend. Second, remember what we said above about gap markets versus regular standard-issue pullbacks. The latter can happen for no reason at all, and they often end before anyone even realizes they have happened. Think Brexit – two days of mini-panic followed by a prompt rebound. Think Ebola – that sudden squall that engulfed markets in October 2014 and subsided just as quickly. Market history is littered with these short reversals, and instructs that the best response is generally no response at all.

*****

That all being said, at some point another gap market will in almost all likelihood occur. Recall our long discussion in the first part of this report about continuity and contradiction. We argued there that the capitalist system is famous for reinventing itself, for adapting to the norms and expectations of society as they evolve. In this way, there has been no fatal clash between the system and the culture such as imagined by Daniel Bell back in 1976. But other contradictions abound, notably between capitalism's overarching need for productive growth and the mass of humanity that depends on this system for its own livelihood. Evolution can be a messy process. It can lead to disruptions in the economy and in financial markets. Neither we nor anyone else can predict when the next such major disruption will occur. But we keep ourselves focused on these larger issues alongside the daily ups and downs of stock prices, interest rates and macro metrics, because they afford us a perspective that, we believe, ultimately will help us do a better job of informing and apprising you.

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