The Education Liquidity Fund

THE EDUCATION LIQUIDITY FUND LETTER

APRIL 2017

U.S. ECONOMY CONTINUES TO STRENGTHEN AS INVESTORS AWAIT FISCAL POLICY DECISIONS

Economic indicators continue to show strength while fiscal policy expectations have moderated. While the consumer has been a key driver of the recovery since the financial crisis, business sentiment and results are starting to reflect the improved environment as well. While the consumer and business create tailwinds for the economy, the delay in healthcare reform has tempered market expectations for drastic, near-term fiscal policy changes, resulting in range bound equity markets and interest rates.

The Federal Reserve met twice during the first quarter and after signaling that a rate hike was imminent, the Fed raised the Federal Funds rate by 0.25% at the March meeting. A revised dot plot was also released, which revealed median and terminal rate expectations that were mostly unchanged. However, the details were indicative of a slightly more hawkish committee. Conversations regarding the Fed's balance sheet, specifically the mortgage-backed bond exposure, are beginning to emerge and most investors expect a tapering of the reinvestment in 2018.

Fixed income markets were mostly range-bound during first quarter with little change in most of the major market indicators. Volatility remained relatively low for most of the quarter as the push and pull of politics, Federal Reserve policy, and economic data provided mixed signals to market participants.

Interest rates move within a fairly narrow range and ended the quarter at similar levels to where they ended 2016. Rates, as measured by the 10 year U.S. Treasury yield, started the quarter at 2.45%, reached a high of 2.63% in mid-March, and fished the quarter back at 2.39%. Only short term interest rates, responding to the Fed funds rate increase in mid-March, increased during the quarter.

U.S. GDP growth for the fourth quarter finished at 2.1%, more than double that of the same quarter in 2015. Consumer sentiment continues to increase on housing market strength, record equity prices, and a labor market that is nearing full employment. Strong consumer sentiment is beginning to result in strength in manufacturing and service sectors. Fourth quarter earnings are consistent with these expectations as both revenues and earnings from the period beat market expectations. Consistent with this data and our longer-term view, we continue to believe that GDP growth will remain steady in the coming quarters and are forecasting the GDP growth rate to be 2.0% to 2.5% in the coming quarters.

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EVENTS

June 7
ISFIS Conference

July 19-21
IACCT Annual

HOLIDAYS

Friday, April 14
Good Friday

Monday, May 29
Memorial Day

Tuesday, July 4
Indepenence Day

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