TELF
The Education Liquidity Fund

THE EDUCATION LIQUIDITY FUND LETTER

FEBRUARY 2017

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

Economic data continued to trend positively during the quarter while markets focused on the U.S. presidential elections. In the weeks leading up to the election, volatility crept close to post-Brexit levels but subsequently fell to the lowest levels of the year after the results were in. After the initial reaction, investors began to position portfolios for fiscal policy that the consensus anticipates being growth-oriented and inflationary. These expectations, in conjunction with strong third quarter corporate earnings, drove equity markets to record highs and have led to higher interest rates.

The Fed met twice during the quarter and voted to raise the Federal Funds rate by 0.25 percent at the December meeting. The Summary of Economic Projections released with the December Fed minutes revealed that expectations for intermediate term GDP growth and inflation remained steady quarter-over-quarter, while unemployment is expected to fall modestly. As outlined in the "dot plot", which depicts the Fed's expectations of future Fed Funds rates, the anticipated pace of additional rate hikes has increased with the board now anticipating three hikes in 2017, up from two in the September projection.

The U.S. consumer continues to have an optimistic outlook on the economy with confidence reaching the highest level since 2001 on lower unemployment and robust equity gains. The jobs market continued to tighten; The unemployment rate dropped to 4.6% putting upward pressure on incomes and leading to continued growth in personal consumption. Measures of strength within manufacturing and services sectors have also followed suit and are at levels which reflect an economy that is expanding. The Case-Shiller National Housing Index reached an all-time high in October, a 5.6 percent increase over the prior year, however higher interest rates have begun to modestly affect the housing market with building permits, new starts and mortgage applications down month-over-month.

U.S. GDP growth rate for the third quarter finished at 3.5 percent, a modest increase from the second quarter. As the consumer remains strong and corporate results indicate that the earnings recession has begun to turn, expectations for future GDP growth are positive. Consistent with this data and our longer-term view, we continue to believe we will see a fairly stable GDP growth rate of 2 to 2.5 percent in the coming quarters. While not robust, U.S. growth continues to be favorable compared to most developed countries.

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EVENTS

March 24
IASBO Annual Meeting/Spring Conference

HOLIDAYS

January 16th
Martin Luther King Jr Birthday

February 20th
Presidents Day

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