TELF

The Education Liquidity Fund

# THE EDUCATION LIQUIDITY FUND LETTER

JULY 2017

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

Economic indicators have lagged optimistic expectations but continue to trend positively. The Fed has continued tightening monetary policy by raising the Fed Funds rate and outlining their plan for the normalization of the balance sheet. The jobs market continues to show its strength, creating ample jobs to drive the unemployment rate down to 4.3 percent, the lowest reading since 2001. As the jobs market reaches full employment, it appears the skills gap may be growing as job openings are increasing while hirings moderate. The lower unemployment rate and increasing number of job openings should put upward pressure on wages, pushing inflation from the current 1.4 percent, as measured by Personal Consumption Expenditures (PCE), towards the Fed's 2 percent target.

The Federal Reserve met twice during the second quarter and continued their steady pace of increasing the Fed Funds rate, doing so for the third time since December. In addition to the rate hike, the committee also released details regarding the normalization of the balance sheet. The outline illustrated that the committee plans to begin tapering the reinvestment of principal and interest slowly, starting in late 2017. The most recent dot plot also indicated that members opinions have remained steady, forecasting one additional rate increase this year and three in 2018.

Home prices continue to remain resilient, driven largely by the record low inventory levels and high turnover ratios. Both new and existing home sales also continue to show growth due to limited inventory while housing starts and building permits have slowed, putting further pressure on inventory levels. Credit continues to remain tight, primarily due to down payment requirements, lessening the impact that rising rates will have on the housing market.

The final estimate of U.S. GDP growth for the first quarter was revised up to 1.4 percent from an initial estimate of 0.7 percent with positive contributions from fixed investment and exports while government spending detracted. After lagging behind consumer related indicators, corporations are experiencing positive momentum as well. Both revenues and earnings have consistently surprised to the upside and grew at 7.8 and 14.7 percent the previous quarter, respectively. The Institute for Supply Management's (ISM) survey of manufacturers also surprised to the upside after two months of declines. The improvement was broad based and is now at the highest level since 2011, signaling optimism across manufacturers."

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## EVENTS

**June 7**
ISFIS Conference

**July 19-21**
IACCT Annual

## HOLIDAYS

**Monday, May 29**
Memorial Day

**Tuesday, July 4**
Indepenence Day

**Monday, Sept. 4**
Labor Day

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