The Education Liquidity Fund

# THE EDUCATION LIQUIDITY FUND LETTER

OCTOBER 2017

## ECONOMY CONTINUES TO GROW WHILE FED STAYS THE COURSE

"The economy continues to grow at a steady pace with indicators across the board showing strength. The market continues to create jobs at a rate that is sufficient to drive down the unemployment rate while first time unemployment claims are at historical lows, and a surprisingly high share of those jobs have come from the manufacturing sector. In addition, various measures of the manufacturing sector continue to show increased optimism about the current environment as well as future expectations.

The Federal Reserve met twice during the third quarter and elected not to raise rates at either meeting but rather began the implementation of the balance sheet normalization process. Beginning in October, the Fed will begin to taper the reinvestment of its $4.5 trillion balance sheet by reducing its reinvestment of principal and interest payments generated by the portfolio. Initially, the Fed will taper at a rate of $10 billion per month and anticipates increasing that figure by $10 billion per quarter until a pace of $50 billion is reached. At the September meeting, a current dot plot was also released which continues to project one additional rate increase in 2017 and three additional rate increases in 2018. Market expectations are for a more modest trajectory, primarily due to inflation readings that have been consistently lower than the Fed's 2 percent target. The Consumer Price Index (CPI) and Personal Consumption Expenditures (PCE) have shown diverging trends with CPI climbing throughout the summer and reaching 1.9 percent while PCE has remained stagnant at 1.4 percent.

As we exit the summer selling season, supply within the housing sectors continued to lead to home price gains as the Case-Schiller national home price index reached a new record high in July, the last month for which data is available. While existing home sales have felt the supply constraint, building permits continue to improve and grew each month during the third quarter. A combination of tighter lending standards, high land costs and elevated levels of student loan debt are making it particularly difficult for first time homebuyers to enter the market, leading to additional pent up longer-term demand.

The final estimate of U.S. GDP growth for the second quarter was revised up to 3.1. Nonresidential fixed investment, exports, federal government spending, and private inventory investments were positive contributors but were partially offset by detractions in residential fixed investment and state/local government spending. Imports also increased during the month which reduce GDP. We anticipate some noise will be created in the coming quarter due to the impacts of Hurricanes Harvey and Irma; natural disasters tend to adversely affect GDP in the quarter immediately following the disaster but then rebounds in subsequent quarters as recovery efforts get underway. Corporate revenues and earnings both extended their growth trajectory, increasing by 5.3 and 9.7 percent, respectively."

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## EVENTS

**Novemeber 1**
IASBO Conference

## HOLIDAYS

**October 9**
Columbus Day

**November 23**
Thanksgiving Day

**December 25**
Christmas Day

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