Monthly Note

May 2016

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- **"Brexit" is at the forefront for financial markets as we approach the June 23rd vote on whether Britain should remain a part of the EU.**
- **Employment growth slowed in April, but wage growth was a relatively encouraging data point. Employment and wage growth are unlikely to accelerate meaningfully from April levels, but should remain healthy through the summer months.**
- **Global growth was generally stable, and indications from the data indicates a continuation of this slow, steady growth trend.**
- **The US Federal Reserve has hinted at a lower bar for a rate hike this summer.**

May was an interesting month, with US economic data firming and signs of stability in the global economy. While growth is not robust and the global economy is subject to significant risks including Brexit and tightening by the Federal Reserve, the global economy appears to have bounced back from a weak start to the year. This trend of slow, persistent growth appears to be continuing into the summer.

On June 23rd, Britain will vote on whether or not to remain part the European Union, and global leaders have taken notice of the potential fallout from such a move. For Federal Reserve officials, Brexit is a "global uncertainty", and it is likely to keep the Fed away from a June hike, with July being a more realistic timeframe for a policy action. The Bank of England has discussed its assessment of the consequences of leaving. An exit could cause a recession, along with a sharp decline in the sterling's value leading to inflation. This "stagflationary" outcome is disconcerting, and would lead to difficult monetary policy decisions from the BoE. In his press conference, Governor Carney stated the global spillovers of Brexit would be negative, and it is "the topic" of conversation with other central bankers.

The US jobs report released at the beginning of May received a lukewarm reception with wages as a bright spot. Anemic wage growth has been a focal point for the Fed, and one reason why policy makers have remained reluctant to increase rates. The April report showed 2.5% growth which is historically lackluster, but a strong reading for this recovery. Granted, 2.5% growth is better, but wages are not exactly "running hot". One unequivocal positive for the labor market is that the number of people quitting their jobs has held steady at around 3 million. Quits are a leading indicator for labor market health, and the 3 million mark points to positive wage and labor market growth over the next few months.

Globally, growth remained positive but slow. In the first quarter, Euro-area GDP was 0.5% with Germany remaining as the bright spot. Few economists see the growth continuing at these levels, although the ECB's corporate bond purchases could lead to an unanticipated continuation of the current growth. US Industrial production gained, manufacturing and utilities bounced back from a weak March, and indications are that US manufacturing continued to grow in May. China has stabilized as its central bank has been depreciating the yuan against most major currencies, including the US dollar, over the past couple months. Unlike previous periods, the depreciation appears to be well contained and orderly thus far.

The Federal Reserve's policy making committee stated that it would likely raise rates in June or July. With some members concerned about credibility and public confusion, June or July makes sense. The data is unlikely to *necessitate* a raise, but it may support the ability to do so. By moving this summer, the Fed is choosing to move because it can—not because it must. Overall, the statement confirmed our suspicions that the Fed is concerned with intangibles—credibility and perceptions—more than simply the data. The Fed has set itself a low bar for an action it would like to take. Without a significant breakdown in the economy, it looks likely to have the excuse to move at one of its summer meetings.

Samuel E. Rines
srines@avalonadvisors.com

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