# Ashdon Investment Management

# Q3 2014 ECONOMIC COMMENTARY

**October 2014**



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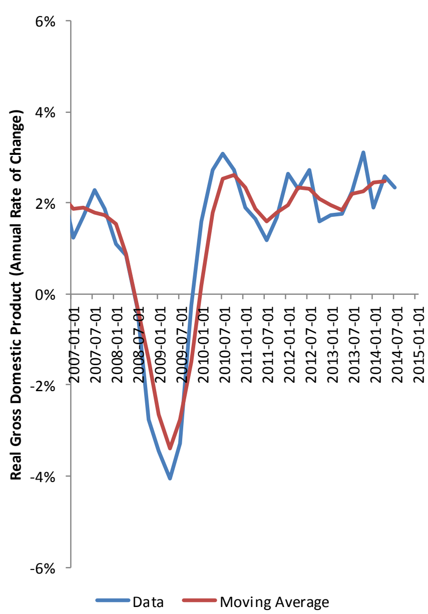
Investment Management

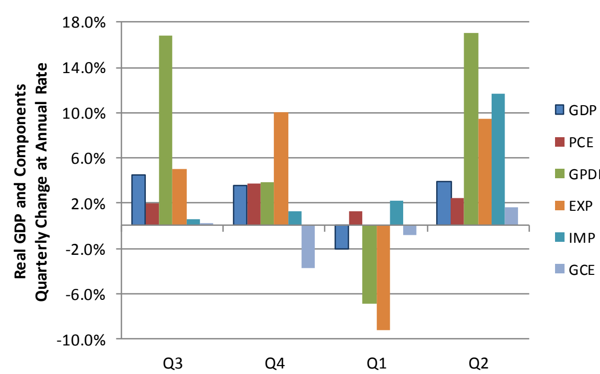
## Third Quarter 2014 Economic Commentary

Extreme volatility in financial markets during the first month of the fourth quarter make consideration of the events of the third quarter seems trivial. However it is our discipline to provide that historical perspective as foundation for more forward looking consideration of portfolio positioning. There is an additional reason the discipline is in place: financial markets can move very rapidly, but not always rationally. The basic economic tracking data provides a valuable unbiased look at the situation. Our thinking today tells us that the US economy remains on a path of long-term, stable, but moderated economic growth.

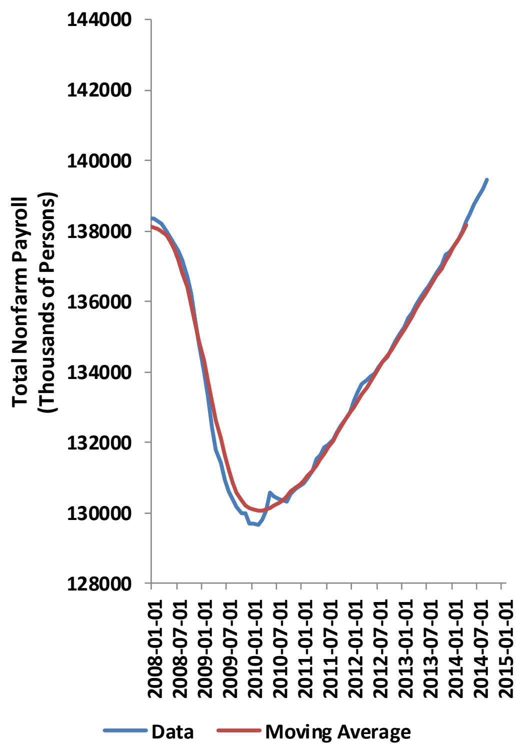
This view continues to be borne out by examination of a wide range of economic and corporate data which we will review below. We are also mindful of other forces that give rise to a more cautionary outlook for investment markets.

Broadly speaking, the US economic data for Q3 continued on trend. GDP rebounded well from the Q1 slump and projections for Q3 GDP are upwardly revised. Employment trends continued to improve as well. The US unemployment rate is now down to 5.9% - the lowest level since just before the financial crisis. Unemployment claims are also at multiyear lows. Employment data are subject to significant criticism, but no one denies that the employment situation is dramatically improved. Anecdotal evidence of labor shortages and wage pressure are now beginning to emerge.



Given the significantly improved data, one can be forgiven for sympathizing with the views of those that say the FOMC is behind the curve on reigning in its accommodative policy response. FOMC meeting minutes reflect the members are also at odds on the matter. But the FOMC has stayed the course at every turn so far.




The most recent meeting minutes were released as of this writing. Little has changed from prior releases. The FOMC did verify that the last phase of quantitative easing would terminate at the end of October. But the policy rate would stay in the range of 0% to 0.25% for an extended period. This is perfectly consistent with our view of the economic situation. The FOMC is balancing its policy response with their view of the balance of risks ahead. Gently removing support from the economy as the recovery of labor markets and the banking system progress limits the risk of an ugly down turn. At the same time, the slow, below potential growth allows some accommodation to stay in place without fear of runaway inflation. Our view of modest growth and recovery with little recession risk remains intact.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