THE ECONOMIC MONTH IN REVIEW AND OUTLOOK – APRIL

US Markets and Economy:

US stocks finished April exactly where they started the month. The S+P 500 Index began April at 2065 and ended April at 2065. The Dow notched a small gain, but the NASDAQ suffered a small loss. (The NASDAQ's poor relative performance was driven by disappointing earnings from some of the technology giants like Apple and Google.) Stocks were pulled in both directions by the crosscurrents in the economy. Corporate earnings were poor in the first quarter of the year, although they were dragged down by the misery in the energy patch. This overall earnings weakness was consistent with a lackluster showing for real GDP in the first quarter, which rose at an annual rate of only 0.6%. On the other hand, employment growth remained strong, with monthly gains continuing at the 200,000 per month rate. Even though unemployment in April ticked up to 5.0%, from 4.9% in March, this rise was driven by an increase in the labor force, which is a sign of strength. More Americans were seeking jobs as the number of "discouraged" workers (not counted as unemployed) fell again. And real wages showed more signs of growth, which gives the work force extra income to spend, driving up GDP now, and extra income to save, driving up GDP in the future. The interest rate environment was also more benign, with the Fed's FOMC dialing back its plans to raise short-term interest rates. Instead of four bumps up in 2016, there might only be two, leaving monetary policy very stimulative for the rest of the year. Long-term rates also remained surprisingly low, with the US 10-year Treasury yielding well below 2%. This "easy money" yield curve should encourage borrowing and business investment spending. These low Treasury rates also keep mortgage rates low, which provides further fuel for the housing recovery. Most forecasts of GDP thus project a significant increase in real GDP growth for the remainder of the year, which should help nudge corporate profit growth back into the plus column, at the same time that interest rates and monetary policy remain very stimulative. This combination is a positive for stocks. Even international firms, which have been held back by a strong dollar, may face better prospects as the international value of the dollar continues to pull back gradually after a very strong 2015. Some of this dollar weakness is no doubt a reaction to the Fed's suggestion that interest rates will remain very low this year.

World Markets and Economy:

European stocks, as measured by the EUROSTOXX 50, a blue-chip index covering most of the Eurozone, fell slightly in April. Almost all of the individual country markets had very small gains or losses. Even British stocks were flat, in spite of the approach of the June referendum on British exit (Brexit) from the European Union. Although the betting is still that the Brits will vote to stay in, the chances of an exit vote have been rising. Brexit would probably send at least one financial shockwave around the world, since 1) London is a major world financial center; 2) the British economy is a much more important part of the EU than say, Greece; and 3) the prospects of either the EU and/or the Eurozone disintegrating would be much higher after Brexit. President Obama spoke to the British about these issues, and pointed out that Brexit would hurt the US too, but it seemed that the "man in the street" viewed this speech as interference from the Yanks.

The European Central Bank (ECB) is using all of its monetary weapons to reignite economic growth in the Eurozone. Short-term nominal rates remain below zero, Quantitative Easing (QE) continues at a ferocious pace, and the ECB will now bribe banks to lend more by offering them funds at negative interest rates if they expand their loan books. These policies may finally be gaining some traction, as economic growth has actually turned positive in the Eurozone. Whether a sustainable expansion is underway remains to be seen.

In Asia, the Bank of Japan (BOJ) has taken the same heroic measures to no avail. The Japanese economy continues to founder. Japanese stocks actually sold off early in April when the BOJ did not announce even more monetary measures to stimulate anemic economic growth. A stock rally late in the month did bring stock prices back to just about where they started April, matching the flat performance of other major indexes around the world.

By contrast, the economic news out of China has been much better. Although Chinese stocks were flat for the month, and still down 30% over the last twelve months, the Chinese economy continues to grow, and the recent slowdown in growth may have stabilized. The Chinese leadership has announced new measures to stimulate growth, including more infrastructure investment in roads and railways. Official first quarter GDP growth was probably in the 6.5-7.0% range, although Chinese economic statistics are less reliable than any other large country. Nonetheless, fears of a more drastic slowdown have abated, and this is good news for countries that export to China.

OUTLOOK:

The US bull market is now entering its 8th year. Further strength is contingent on a turnaround in corporate profits, and continued expansionary monetary policy in the US, Europe, and Japan. Since these are all fairly likely, stocks can continue to push gradually higher. The last 18 months have been a traders' market though, with each rally followed by a sharp selloff. Long-term investors may thus have to be unusually patient and courageous to avoid being distracted by the inevitable short swings up and down.