

Higher View

A QUARTERLY NEWSLETTER of ALTAVISTA WEALTH MANAGEMENT

A Positive Outlook



Since bottoming in March 2009, the S&P 500 Index has put in a remarkable 8 years: 262% performance with only a few significant pull backs along the way. During that time, the market has often traded at notably stretched valuations. A combination of earnings growth and higher multiples (investors paying more for a dollar's worth of earnings) propelled the market ever higher.

Today the market trades at its loftiest valuation since the tech bubble, and while we are wary of high priced markets, we continue to be constructive on global stocks. We remain so even in the face of recent downbeat economic and market developments. Specifically, those developments are 1) persistently low long-term interest rates in the face of a Federal Reserve determined to lift short term rates and 2) the whiff of deflation implied by recently soft commodity prices.

When short term rates rise and long-term rates fall we say the interest rate curve is "flattening". A flattening yield curve is a reliable indicator of approaching economic weakness. Currently (as of July 3) the spread between 2 year treasury bonds and 10 year bonds is only .93%, down from 1.27% in November of 2016. This significant "flattening" is notable but we believe long term rates will rise as labor rates increase and inflation expectations rise.

There have been early indications of deflation as the U.S. Consumer Price Index has unexpectedly dropped. Deflation

heralds lower profits and a potential lowering of economic growth estimates. We believe much of the recent softness in the CPI is attributable to the lowering price of oil and natural gas which we think will rebound in the second half of the year.

There are two other positive factors which also contribute to our relatively sunny near-term outlook: earnings growth and an accelerating global economy. We believe the current earnings season could provide double digit year-over-year profit growth, providing support for stocks at elevated levels. Economies in the U.S., Europe, Japan and China are growing. U.S. growth is projected to accelerate in the last half of the year. Just this week, the Atlanta Fed increased its forecast for U.S growth from 2.7% to 3%. This provides another level of support for equity markets.

Certainly, there are risks to this sanguine view and several factors which could temper our outlook. The chance of a policy mistake is high as central banks negotiate the pace of interest rate "normalization," triggering our next inevitable recession perhaps in 2018 or 2019.

However, rebounding earnings have placed the market in what we believe is a "sweet spot" which will remain until a combination of inflation and interest rate increases begin to bite. This view is also the reason we counsel that bond portfolios remain shorter in duration as we believe interest rates will rise along the curve as the fear of deflation recedes.

As always, we welcome your questions and concerns. We thank you for your continued confidence in Altavista and wish everyone a safe and relaxing summer.

— Kyle Boyd and the Altavista Investment Team

Altavista Trust President Ned Zorigian Retires



This spring as we settled into the new office space in Charlotte, we planned for the retirement of our very wonderful Ned Zorigian. Ned joined Altavista Wealth Management in January of 2007 as a Senior Relationship Manager and President of Altavista Trust when he retired from Wachovia after 22 years of

service. His career started in Massachusetts with the First National Bank of Boston in 1970. Over the course of 15 years, he rose to the position of Senior Vice President in the Personal Trust Group. Moving to Wachovia in Charlotte, NC, Ned served as the Southern Region Personal Trust Manager and later as Manager of the Personal Investment Management Group of the Wachovia Trust Division. After a brief move to First Union National Bank as a Senior Capital Management Advisor, Ned returned to Wachovia after First Union's purchase of Wachovia. He retired from Wachovia on November 30, 2006, and luckily was not ready to finish doing what he does best: bringing his vast experience and comprehensive knowledge and resources to help his clients manage their financial and generational family issues. We all looked to Ned as a consultant when navigating any complex trust situations.

During his career in New England, Ned served as President and member of the Estate and Business Planning Council of Worcester County and the Montachusett Estate Planning Council. He is currently an active member of the Charlotte Estate Planning Council. Ned also served as a Director on the Goodwill Industries Board in Charlotte from 1988 to 1996. He is Past Chairman and Director of the Estate Planners Day at Queens University in Charlotte.

Ned and his wife Kathy raised their two active sons Kris and Matt in Charlotte. Every May for the last 14 years, Ned spent a week as captain of the marshals at hole #10 at the Wells Fargo Championship Golf Tournament. The arrival of his and Kathy's first grandchildren – twin girls Samantha and Alexandra, was the final draw for retirement. We know you will miss him as much as we do.

