Global Outlook Improves

***e*Research Corporation** is pleased to provide an article by Scott Grannis for his Blog, "Calafia Beach Pundit".

In this article, Mr. Grannis is encouraged by the positive signs exhibited on a global economic basis.

The article is reproduced below, beginning on the next page, or you can go to this specific Blog at the following link: **Global Outlook Improves**

You can also visit Scott Grannis' Home Page for his Blog at the link below:
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Bob Weir, CFA: Director of Research

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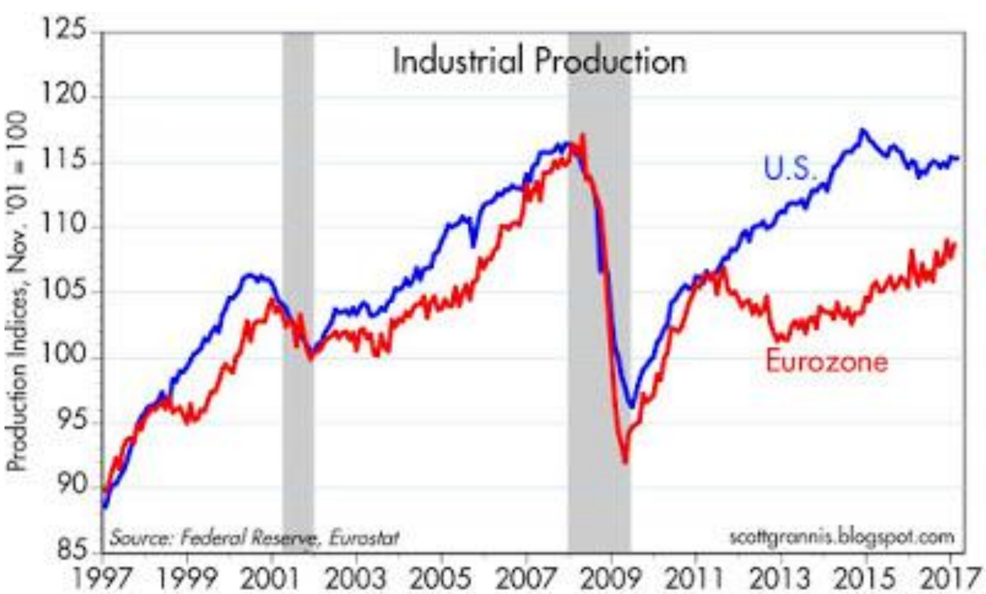
Global Outlook Improves

It is not just a Trump Bump that is driving stocks higher, nor is it unwarranted or unsubstantiated optimism. Rising equity prices are most likely a response to an improvement in global economic fundamentals that is just now becoming clear.

Global industrial production has been rising for the past 6-8 months, and the volume of global trade picked up noticeably toward the end of last year. More recently, today's release of industrial production statistics for February shows a significant pickup in U.S. manufacturing activity in the first two months of this year. All of this was foreshadowed by a pickup in chemical activity which I noted early last summer and which continues to suggest a meaningful improvement in overall industrial production in the months to come.

The market is usually pretty good at sniffing out developments in the economy that are not yet obvious in the stats, and this is the latest example.

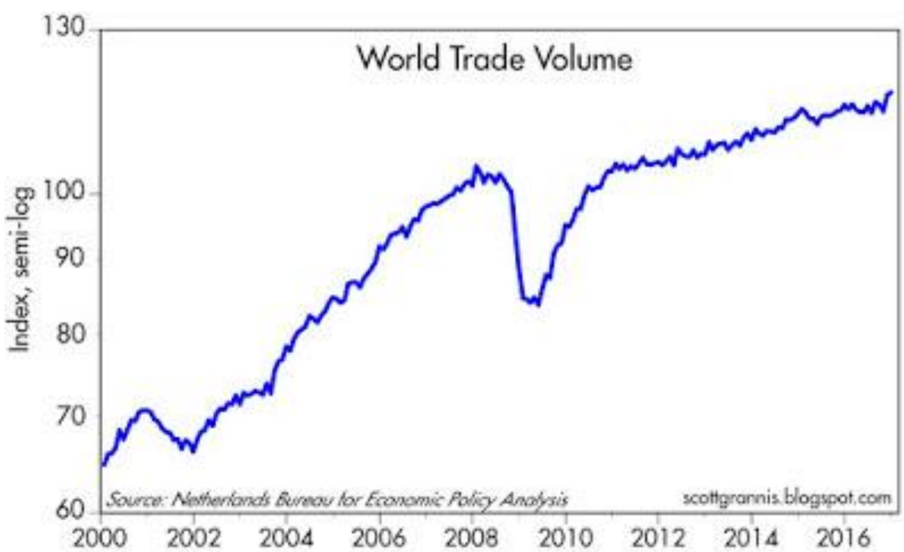
Here are some charts that tell the story:



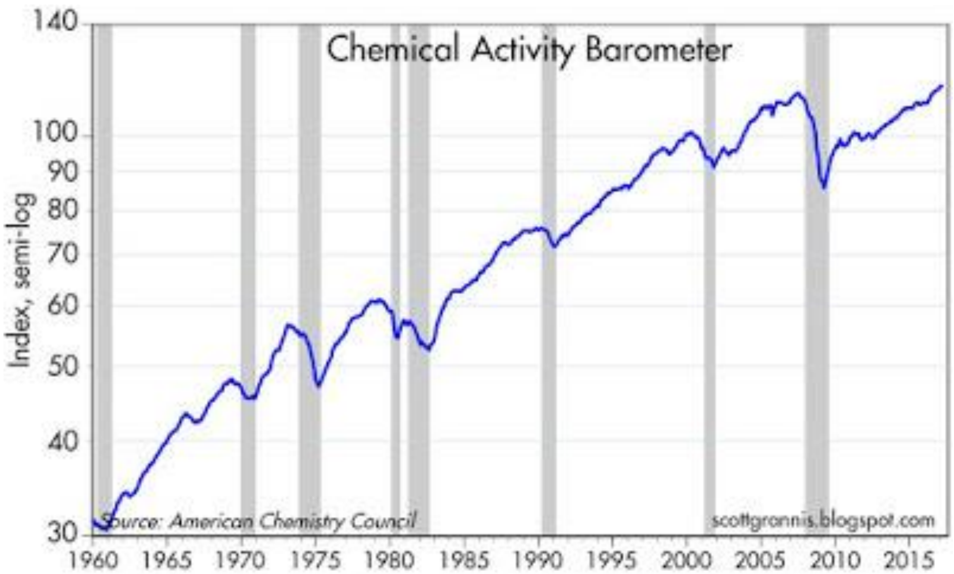
U.S. industrial production statistics have been unimpressive for years, due mainly to wrenching problems in the oil patch. Eurozone industrial production in the Eurozone has been abysmal relative to modest improvement in the U.S.A., but it has nevertheless been improving, and this improvement became noticeably stronger about six months or so ago.

After several years of almost zero growth, U.S. manufacturing production has jumped, rising at almost a 5% annualized rate since the end of November.

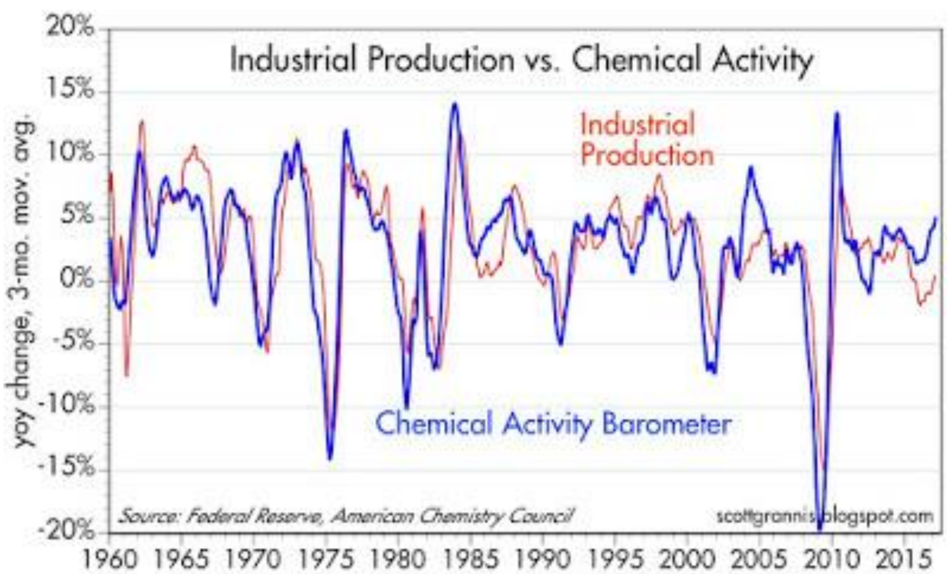
The volume of world trade is a key indicator of global economic health, since expanding trade is an unalloyed good thing: increased trade is arguably the best way to improve a nation's productivity, since it allows trade partners to strongly benefit from the things they do best. In the chart below, we see that world trade volumes rose at a relatively tepid 2-3% pace for a number of years, which is consistent with the recent recovery being the least impressive in modern history. But in the second half of last year world trade volume rose at a 4-5% pace. This is very good news.



The Chemical Activity Barometer has done a pretty good job of reflecting—and sometimes leading—overall economic activity in the U.S.A. Starting last summer, this indicator started picking up, and in the year ending February it has increased by over 5%.



The chart below shows that the year-over-year change in the 3-month moving average of the Chemical Activity Barometer has been a reliable predictor of improvement in U.S. industrial production. Industrial production is now beginning to improve, as predicted, having increased modestly since last March after several years of decline. More improvement should be on the way.



The next chart shows the CRB Raw Industrials commodity index, which has been rising strongly since late 2015. It is now apparent that this has been driven not by a weaker dollar (as has typically been the case), but by an unexpected and significant improvement in global economic activity. The CRB Metals index (which consists of copper scrap, lead scrap, steel scrap, zinc, and tin) has surged almost 60% since early last year. Very impressive, and it is still ongoing.

<continued>

So it is not surprising that Eurozone stocks have perked up of late, as has nearly every global equity market. The current equity rally is built on a sound economic base, not on flights of fancy.

BW: See ABOUT THE AUTHOR on the next page.

ABOUT THE AUTHOR

Scott Grannis was Chief Economist from 1979-2007 at Western Asset Management, a Pasadena-based, global manager of fixed-income portfolios for institutional clients.

He now enjoys keeping up on economics, markets, and politics from his condo overlooking Calafia Beach on the southern California coast, where he likes to think that he is immune to Wall Street group-think.

Married for 45 years to his Argentine wife, Norma, he has four children and five grandchildren (four boys and one girl).

He is a believer in supply-side economic theory, as practiced by his mentors, the late Jude Wanniski, Art Laffer, and Larry Kudlow. John Rutledge is another of his mentors, from the days that they worked together at Claremont Economics Institute.

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