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ECONOMIC OUTLOOK

After a stock market decline in the early days of April, the market is back up to the level that existed before tariffs were implemented. This is a great example of the danger of trading based on predictions about the future – even when those forecasts come from some of the biggest names in the investment business. Investing with an eye toward secular long-term goals ("secular" meaning investments less likely to follow near-term market fluctuations) is a much stronger position than investing with cyclical influences.

The first quarter of this year reflected a 0.3% decrease in gross domestic product (GDP). Most economists agree that GDP, which reflects the combined value of goods and services consumed, is a comprehensive measure of the health of an economy. Demand-side GDP measures the economy based on the buyers of goods and services. Those buyers fall into one of four categories: households, businesses, government and foreigners. The calculation is simple. Add them together, and the result is GDP.

In the first quarter of this year, household consumption accounted for 73% of GDP, business 15.9% and government 17%. Doing some quick math, we see that these three components already add up to 105.9%. How can it be that we still have one more component to consider, but the total already exceeds 100%?

When a country imports more goods and services than it exports, it is a deduction from GDP. The U.S. imports so many goods and services produced outside of our borders that the fourth component of GDP is a deduction of -5.9%. This is one of the reasons our large trade deficit with other countries is a concern.

Getting back to the reported GDP in the first quarter of this year, if the trade deficit were eliminated, GDP growth would have been 4.5%.

Nominal annual GDP in the U.S. is $30 trillion. Getting back that 5.9% by eliminating the trade deficit would have the potential to raise the total GDP to $31.77 trillion. Do that every year, and you add a nice boost to economic growth. >>>

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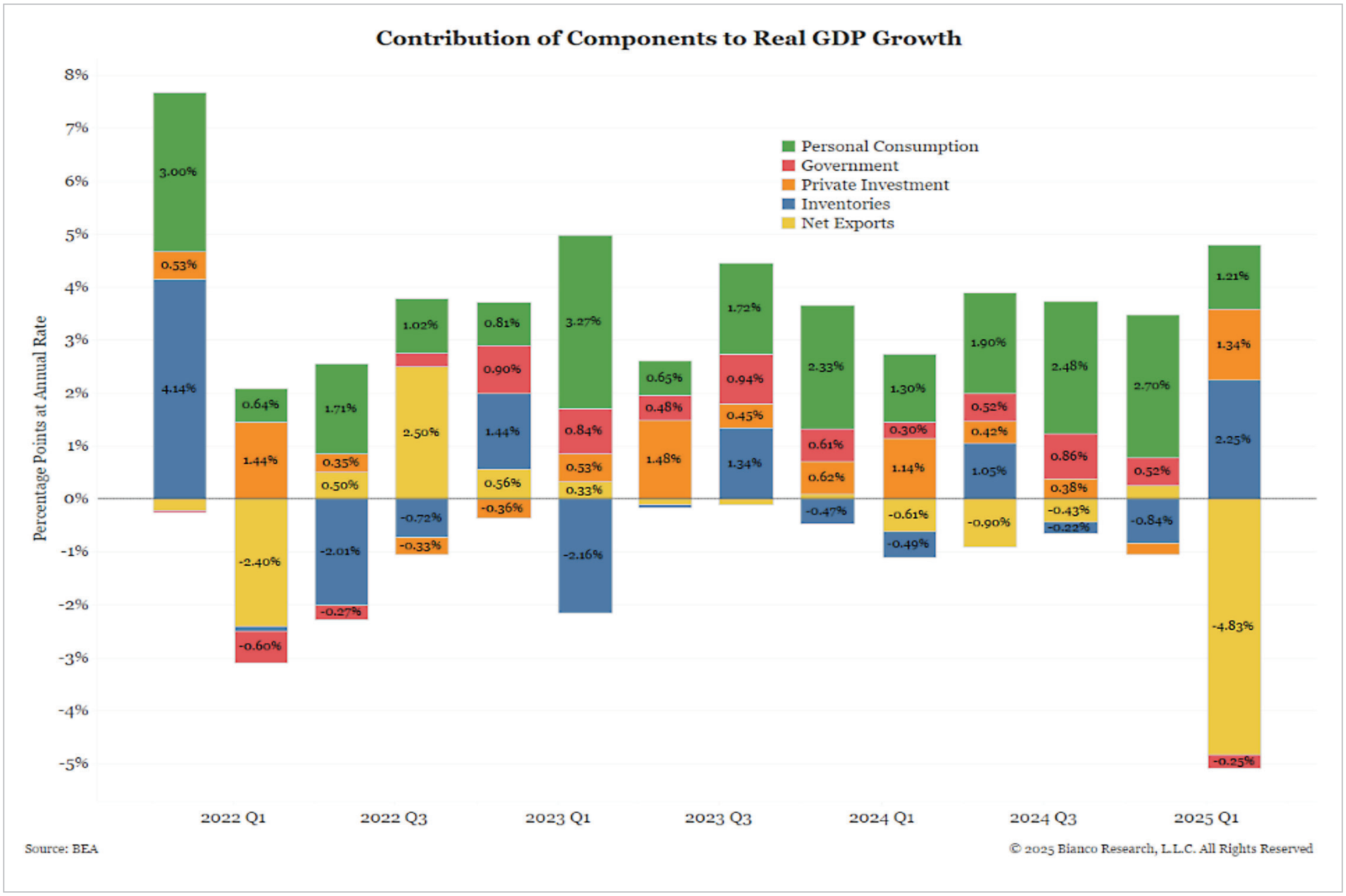

The major component of the GDP calculation is U.S. household purchases. This is why our perspectives so often mention the state of the consumer. Over the last year or so, we have reported rises in credit card and auto loan delinquencies, alongside several years of elevated inflation while wages stagnated. This combination indicated the consumer was becoming marginalized. There is a variable lag between when we see this data and the timing of its impact on the economy, but 9 to 12 months is a normal timeline – indicating that economic pressure from this component is becoming visible in the economy today.

As always, navigating these environments is most successful when an investor focuses on long-term goals. Thanks for the continued trust you place in our professional team at Bell.

Greg Sweeney is the Chief Investment and Economic Strategist at Bell Institutional Investment Management. He guides the investment strategy, and this outlook is his perspective on the latest market trends and what they could mean for investors. Any views, strategies or products discussed in this article may not be appropriate or suitable for all individuals and are subject to risks.