This economic commentary is designed to present the firm's current views on timely topics that we feel may be of interest to our clients. Viewpoints is also available electronically on our website: SLOCUMGORDON.COM.

An influential conservative French economist (yes, there apparently is such a thing!) named Jacques Rueff once wrote:

The problem of the managed economy is like the problem of the waves of the sea. We have identified the forces that cause them, we apprehend the conditions which must be met for a solution of the problem, and we can even reduce it to an equation—but its solution is hopelessly beyond our capacities.

It is difficult to recall exactly when the last time a fully free market economy prevailed, as we have been in a long post-recession period accompanied by unprecedented monetary control from the world's central banks and beggar-thy-neighbor currency manipulation policies from many trading partners, all trying to compete in a slow-growth global economy. Stock prices, which are already carrying on in odd ways, are not for the faint-hearted, particularly when measured against current earnings projections, lofty PE multiples, and tepid top line sales growth.

Politics, a parlor game which has become quite deadly serious these days, has also cast a pall of uncertainty over markets recently. With the extremes that are represented in political discourse today, gridlock is sounding better and better, so handicapping the future direction of policy, economic or otherwise, seems virtually impossible. What is patently clear is that it will not be business as usual in Washington. Primary voters have already made that emphatic statement.

The engines that propelled stock prices over the last two decades or so have also changed:

-China, where excess demand for all commodities during its extraordinary growth (and overbuilding) phase, has slowed notably, causing a sharp drop in price of nearly every traded commodity. China's meteoric growth has been built on exports, and its current slowdown, of course, can be traced back to the slowing economies of its customers in Europe and the US.

-The tailwind of Fed easing has turned into a headwind with the beginning of a gradual monetary tightening policy.

-The world remains in a fundamentally deflationary period with overcapacity of industrial production, essential commodities, labor, and capital. In fact, the only shortage that seems to be evident in the global economy is income, both earned income and investment income.

-Cautious because of tepid wage growth and with still stinging memories of the Great Recession, consumers continue to save at a very high rate, thereby restraining retail spending.

Demographics are another factor here. With Baby Boomers nearing or now in retirement, diminishing consumption patterns of this population cohort are impacting retail spending as well. In fact, someone recently characterized this by saying that Boomers have moved from Beemers (slang for BMW motorcycle) to Depends. Clearly, a very different price point between the two!

-Politics on a global level are signaling a sea change as well, moving toward populism, protectionism, and nationalism. (Think Brexit!) These political leanings are generally not good for free markets, so a wary eye must be maintained on this developing trend.

-Debt continues to plague global economies. In fact, non-financial debt in the US rose 3.5 times faster than GDP last year alone, and when business debt is allocated to financial engineering (stock buybacks, dividend increases, acquisitions) it does not generate an income stream to service that debt, nor create employment or productivity growth.

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Consequently, we think that 2016 will be another sub-par growth year—2-odd % range (positive, nonetheless), and that interest rates, even with the Fed talking up a number of rate increases, will remain lower for longer for fear that higher rates would strengthen the dollar, a disadvantage in global trade, particularly since other central banks are lowering rates to weaken their currencies.

On the long-term positive side of the ledger, we have referred many times to the maturing echo-boomer and millennial generation of Americans. While entering the household-formation phase arguably later in life than their parents before them, this large population cohort will become an enormous economic engine for the domestic economy once the family-formation mode takes hold with everything that goes along with setting up a household. Some observers suggest that this may never occur with this unconventional generation, but we contend that, in the end, hormones will win out! Importantly, the US is unique in this economic phenomenon as many of the other developed and developing countries are experiencing a diminution in population growth.

However, in the meantime, the world continues to travel through uncharted territory suggesting that investors should maintain a generally lower risk profile in their portfolios, focusing on dependable income which will remain in short supply for some time to come. Our strategy remains consistent: invest in companies that have a long history of paying and increasing dividends; maintain quality in both stock and bond selection; retain higher levels of liquidity than normal; and keep a balance of defensive and cyclical industry representation within the portfolio.

The recent Brexit vote is a reminder that the unexpected can occur very quickly and roil markets for short, intense periods. It has become Wall Street dogma, however, that there is so much cash on the sidelines looking for some semblance of yield that any downdrafts become buying opportunities. Volatility is with us, for better or worse, for the foreseeable future. We continue to tread carefully with current valuations of stock prices, and when we review our clients' portfolios, we encourage caution and patience, necessary elements in successful long-term investing.

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