The Pinkard Fund

Investor Update — January 2015

Market Update — For Q4 2014

As 2014 ends and the new year begins it is interesting to look back at the trajectory of the current recovery and think about where we go from here. The US economy has had positive GDP growth in 19 of the last 21 quarters and a string of 17 straight quarters of positive job growth. We all have read why this is a lackluster recovery, low GDP growth, no real income growth, wider income disparities, etc., but one has to acknowledge that the last few years have provided a stable business environment. With low interest rates and a strong stock market recovery, investors have fared extremely well over this time period, and as 2014 came to an end, the growth in the US economy was accelerating.

It is at this point in the cycle where the pundits begin to opine on how long the growth cycle can last and how it could be derailed. It is a challenging task at best, as threats to our economy are often only clear in the rear view mirror. Here are a few to think about. Last year provided an interesting intersection of world events that made us feel more vulnerable, if not threatened here in the US. The emergence of the terrorist ISIS regime created a level of worry here in the US, which was not felt in the Iraq and Afgan wars. In those conflicts we were working mostly in cooperation with democratically elected governments while ISIS can only be described as a terrorist regime. Russia's belligerent, acquisitive maneuvers in Eastern Europe were reminiscent of the cold war. Ebola raged, and then escaped the African continent. The few cases of Ebola that we had in the US created a collective anxiety for sure. The continued cyber-attacks against private sector companies exposed the personal information of millions of Americans and raised the fear that we can't keep these guys out. Finally there was the attack against Charlie Hebdo which starkly reminded us that the Western world remains exposed to terror attacks.

None of these events is directly economic, but they all claw at the stability of our economic system. And here is the connection to Washington real estate. Our country's response to these major threats needs to come from Washington where dollars will be spent and programs created to make sure our interests are protected. For example, we are already seeing increased spending in cyber security. After tens of billions of dollars of defense cuts starting in 2010 and sequestration which led to dramatic cuts in federal and contractor employment in 2013 and 2014 the worst of the cuts is behind us. While the Washington region has trailed much of the rest of the country in GDP growth the last two years, we see a bottoming occurring in many sectors as office rents have flattened and new construction starts for apartments have slowed. While the market still remains competitive for quality properties, there are good opportunities available in our view, and we just might be at the beginning of the next cycle.