Langdon Shaw Associates, Inc.

9951 Crosspoint Blvd. | Suite 100
Indianapolis, IN 46256
Phone: (317) 842-7272
www.langdonshaw.com

Q3 2017 – Market Overview Newsletter

Economic Update

U.S. stocks continued their record-setting run through the summer, with the S&P 500 gaining 4.5% to reach a total return year-to-date of 14.2%. Through the end of September, the benchmark large-cap index has closed at a daily all-time high 39 times for 2017. Although it may seem like U.S. equities recovered from the financial crisis years ago, the market as a whole has not. The global financial crisis naturally hit financial stocks the hardest and while the S&P 500 Index reached new highs way back in 2012, financials have lagged. The sector only recently surpassed its previous peak – more than 10 years later. The S&P 500 has doubled in that time, raising valuation concerns about U.S. stocks generally.[1] However, the financial sector isn't the only place where values can be found. Given current market conditions we see this as a time when being more selective about what stocks to own, through active management may benefit investors.

What's remarkable about the recent run of good performance is how relatively calm it has been—according to the Wall Street Journal, the S&P 500's average daily move during the 3rd Quarter was only 0.3%, the lowest level in nearly 50 years.[2] And that occurred even as tensions escalated on the Korean Peninsula and three devastating hurricanes struck the U.S. mainland and Puerto Rico. The market's apparent nonchalance about these worrisome events indicates investors may be paying less attention to the volatile external environment and focusing more on fundamentals. There is good reason for that—business performance has been strong in recent quarters, especially when looking at earnings growth. Much of the strength in earnings growth was driven by multinational companies; S&P 500 firms with more than half of their sales outside of the U.S. saw earnings growth rates that were better than the S&P 500 average.[3] These multinational firms benefitted from a resurgence in economic activity in Europe plus many emerging markets as well.

The U.S. is further along in its economic cycle than many other developed countries so international markets appear to have greater potential for growth, with more room to run in their economic cycles and central banks maintaining their accommodative monetary policies. The U.S. is in a different place; the Federal Reserve has taken the lead among global central banks in moving away from the "easy money" days of low interest rates and quantitative easing. The Fed held the line on rate hikes during Q3, but did formally announce the start of the great unwinding of its balance sheet—$4.3 trillion in government and mortgage-backed bonds the Fed bought to help the U.S. emerge from the global financial crisis.

The Fed's announcement, along with its stated intention to hike rates one more time in 2017, gave a boost to Treasury yields. The benchmark 10-year Treasury note finished the quarter at 2.33%, but not before hitting a year-to date low of 2.03% earlier in September. Investors see encouraging signs in recent economic numbers, especially the 3.1% annual GDP growth rate for Q2 as reported at the end of September. That's the strongest annual rate of growth in over two years. Despite further geopolitical threats from North Korea and contentious tax reform and debt ceiling negotiations in Washington D.C. our economy and companies have continued to grow.

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For more market details, see the "Capital Analysts Q3 2017 Market Review" in the commentaries page on our website at www.langdonshaw.com/commentaries.

Timely Reminders

- IRA Required Minimum Distributions (RMDs)

Those with IRA accounts are required to take a distribution each year beginning in the year they turn 70½. RMDs must be taken by the last day of the calendar year (12/31/2017.) We monitor these requirements for our clients and will be in touch between now and the end of the year if you qualify and have not yet taken your RMD. Please contact us if you have any questions.

- College Choice 529 Indiana State Tax Credit

The Indiana State 529 plan, College Choice offers an annual state tax credit for 20% of contributions up to $5,000 ($1,000 tax credit) per tax filing. If you have a College Choice 529 account (or are thinking to start one) and wish to make a contribution, the deadline for the 2017 Indiana tax credit is 12/31/2017. If sent in the mail, contributions need to be post-marked by that date. Please contact our office if you would like any assistance or have questions about the College Choice 529 plan or the Indiana tax credit.

- Charitable Gifting

Gifts of highly appreciated stock can be a great way to make charitable contributions. Those who wish to do so this year need to make their stock donations by 12/31/2017 to qualify for the 2017 tax deduction.

Making a charitable gift directly from an IRA is another tax advantaged method of gifting. Gifts directly from an IRA are excluded from taxable income.

Please contact our office with any questions you may have.

Sources:

1 *"10 years later, financials have reached new heights"* Capital Ideas, October 9, 2017.

2 *"U.S. Stocks Climb to End Third Quarter"* Wall Street Journal, September 29, 2017.

3 *"S&P 500 Companies with More Global Exposure Reported Higher Earnings Growth in Q2"* FactSet, August 11, 2017.