



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.

DISCLOSURE INFORMATION

The opinions and material presented are provided for informational purposes only. No person or system can predict the market. Neither asset allocation nor diversification guarantee a profit or protect against a loss. All investments are subject to risk, including the risk of principal loss. There is no assurance that the investment goals and process described herein will consistently lead to successful investing. Asset allocation and diversification do not eliminate the risk of experiencing investment losses. The investment return and principal value of an investment will fluctuate, and an investor's shares, when redeemed, may be worth more or less than their original cost. Funds that invest in stocks of small-cap or mid-cap companies involve additional risks. The securities of these companies may be more volatile and less liquid than the securities of larger companies. Funds that invest in international securities involve special additional risks. These risks include, but are not limited to, currency risk, political risk, and risk associated with varying accounting standards. Investment in emerging markets may accentuate these risks. Alternative strategies, including those used in mutual funds, have risks that may substantially increase the potential for loss. Bonds are subject to interest rate risk. Bonds have interest rate risk and credit risk. As interest rates rise, existing bond prices fall and can cause the value of an investment to decline. Changes in interest rates generally have a greater effect on bonds with longer maturities than on those with shorter maturities. Funds that hold bonds are subject to declines and increases in value due to general changes in interest rates. Credit risk refers to the possibility that the issuer of the bond will not be able to make principal and/or interest payments. The information shown does not constitute investment advice, does not consider the investment objectives, risk tolerance or financial circumstances of any specific investor. The information provided is not intended to be a complete analysis of every material fact respecting any portfolio, security, or strategy and has been presented for educational purposes only. Data obtained from the sources cited is believed to be reliable and accurate at the time of compilation. None of the information in this document should be considered as tax advice. You should consult your tax advisor for information concerning your individual situation. The Federal Reserve System (also known as the Federal Reserve, and informally as the Fed) is the central banking system of the United States. The Federal Reserve System is composed of 12 regional Reserve banks which supervise state member banks. The Federal Reserve System controls the Federal Funds Rate (aka Fed Rate), an important benchmark in financial markets used to influence the supply of money in the U.S. economy. Quantitative easing is an unconventional monetary policy in which a central bank purchases government securities or other securities from the market in order to lower interest rates and increase the money supply. Quantitative easing increases the money supply by flooding financial institutions with capital in an effort to promote increased lending and liquidity. Quantitative easing is considered when short-term interest rates are at or approaching zero, and does not involve the printing of new banknotes. Gross Domestic Product (GDP) is a measure of output from U.S. factories and related consumption in the United States. It does not include products made by US companies in foreign markets. The Federal Open Market Committee (FOMC), a committee within the Federal Reserve System is charged under United States law with overseeing the nation's open market operations (i.e., the Fed's buying and selling of United States Treasury securities). The U.S. Treasury yield is the return on investment, expressed as a percentage, on the U.S. government's debt obligations (bonds, notes and bills). The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market. **Benchmark Definitions** S&P 500 Index is an index of 500 of the largest exchange-traded stocks in the US from a broad range of industries whose collective performance mirrors the overall stock market. Participation in a 529 College Savings Plan (529 Plan) does not guarantee that contributions and investment return on contributions, if any, will be adequate to cover future tuition and other higher education expenses or that a beneficiary will be admitted to or permitted to continue to attend an institution of higher education. Contributors to the program assume all investment risk, including potential loss of principal and liability for penalties such as those levied for non-educational withdrawals. Depending upon the laws of the home state of the customer or designated beneficiary, favorable state tax treatment or other benefits offered by such home state for investing in 529 college savings plans may be available only if the customer invests in the home state's 529 college savings plan. Consult with your financial, tax or other adviser to learn more about how state-based benefits (including any limitations) would apply to your specific circumstances. You may also wish to contact your home state or any other 529 college savings plan to learn more about the features, benefits and limitations of that state's 529 college savings plan. For more complete information, including a description of fees, expenses and risks, see the offering statement or program description.

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.