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Q4 2017 – Market Overview Newsletter

Economic Update

2017 was a banner year for stock investors, especially those who were invested in the largest U.S. companies. While the S&P 500 climbed over 21% for the year, it was the blue-chip Dow Jones Industrial Average that bested the benchmark large-cap U.S. stock index, rising 28% in 2017. The Dow closed at record highs on 70 different occasions in 2017 and crossed five 1,000-point thresholds along the way (20,000 to 24,000). The strong performance was driven primarily by technology stocks, which as a sector gained over 38% for the year. Small- and mid-cap stocks lagged, even though both asset classes turned in decent returns of 13% as measured by S&P Small-Cap 600 and 16% as measured by S&P Mid-Cap 400 respectively for the year. Stock investors were buoyed throughout the year by favorable reports on U.S. economic growth and corporate profits. In addition, prospects for U.S. tax reform helped keep investor optimism riding high during the year; eventually, this optimism was rewarded with the passage of the largest overhaul of the IRS tax code in 30 years, when President Trump signed the bill just before Christmas.

Positive equity returns were not confined to U.S. shores in 2017; investors in foreign stock markets also saw strong performance with developed international markets (as measured by the MSCI EAFE Index) rising 25% and emerging markets gaining 37% as measured by MSCI Emerging Markets. 2017 marked the first year since 2012 when international stocks outperformed U.S. stocks. Developed foreign markets across Europe and Asia were buffeted by signs of returning economic growth, and many emerging economies saw stronger demand for raw materials. Global markets are generally behind the U.S. in the current economic cycle, meaning their business expansions have more room to run than ours in the U.S., and thus may have better prospects for future investment returns.

In fixed income markets, rates on longer-term Treasury notes ended 2017 slightly below where they began the year, but for shorter-term Treasuries rates increased over the last 12 months. Much of the movement in short-term rates came as a result of the Federal Reserve's continuing tightening of monetary policy; the Fed raised its target rate three times in 2017 and also began the long-planned unwinding of its balance sheet, effectively reversing the stimulative program of quantitative easing enacted in the wake of the last recession. Economic reports throughout 2017 largely bolstered the case for tighter Fed policy and rate hikes; the U.S. economy as measured by Gross Domestic Product (GDP) is growing at its strongest pace in two years now, and job growth throughout 2017 has mostly been robust. The only missing piece of the puzzle has been inflation, which has remained below the Fed's target of 2% for much of this year.

Compared to where we were at this time last year, with a new president bringing a markedly different leadership style to the White House, the outlook for the coming year may seem a little clearer. Tax reform is likely to provide a boost to the economy and the markets, at least in the short run. While the prospects for continued growth appear bright, we remain cautiously optimistic. The current economic expansion is reaching a mature stage; that itself doesn't mean a recession is around the corner, but as you know, the financial markets are cyclical in nature. Though we don't yet see the catalyst for a downturn in the markets, we should be prepared for the eventual slowdown in economic activity.
-LS

For more market details, see the "Capital Analysts Q4 2017 Market Review" in the commentaries page on our website at www.langdonshaw.com/commentaries

Additional Notes

- 2017 IRA Contributions

It's not too late for your 2017 IRA and Roth IRA contributions! Don't forget, 2017 contributions can be made until 4/17/2018. The 2017 IRA contribution limit is $5,500 (plus an additional $1,000 if over age 50.)

- 529 Educational Savings Changes for 2018

With the new tax laws come some additional uses for 529 educational savings. Beginning in 2018, up to $10,000 per year of 529 savings can be used for elementary through high school education expenses. For parents with young children, it could be advantageous to contribute additional 529 savings.