

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.

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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.

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. **The Dow Jones Industrial Average** is a widely watched index of 30 American stocks thought to represent the pulse of the American economy and markets. **The S&P Small Cap 600 Index** covers roughly the small-cap range of US stocks, using a capitalization-weighted index. The index covers roughly three percent of the total US stock market. **The S&P Mid Cap 400** is a capitalization weighted index that measures the performance of the mid-range sector of the U.S. stock market. **Morgan Stanley Capital International (MSCI) EAFE Index** (Europe, Australasia and Far East) is an index created by Morgan Stanley Capital International (MSCI) that serves as a benchmark of the performance in major international equity markets as represented by major MSCI indexes from Europe, Australia and Southeast Asia. **The MSCI Emerging Markets Index** is a float-adjusted market capitalization index that is designed to measure equity market performance in emerging markets. It consists of indices in 23 emerging market country indexes: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and Arab Emirates. With 834 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Investors cannot invest directly in an index. 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.