2017 Capital Markets Review

January 2018
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Global Syncronization

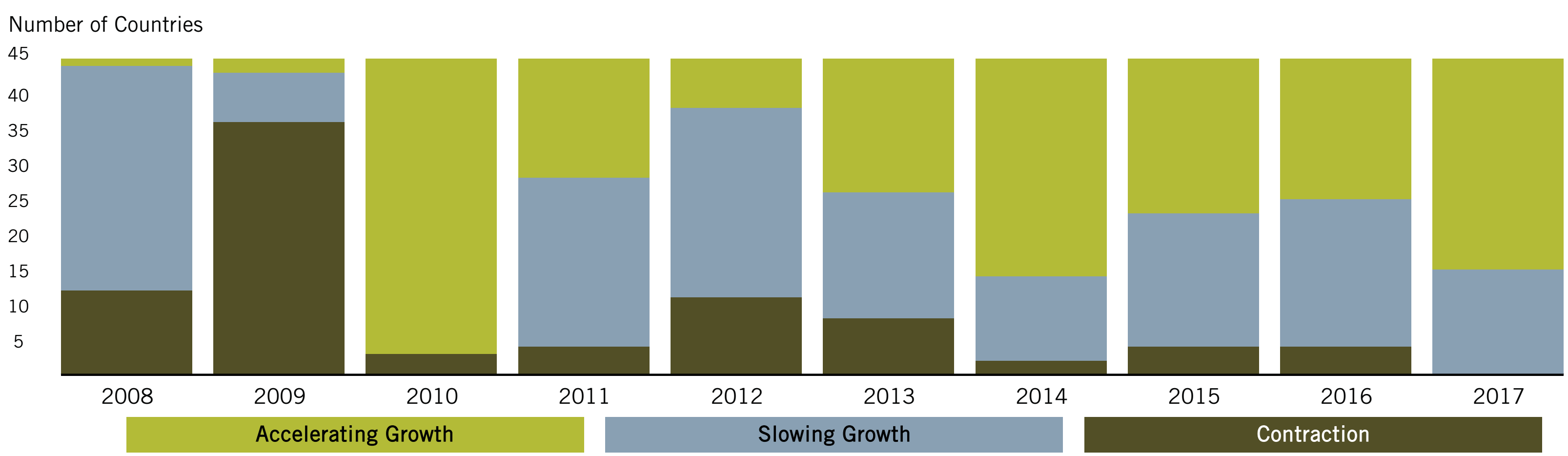
The sluggish U.S. economy has been one of the few consistent positive contributors to global GDP growth in recent years; however, in 2017, the rest of the world finally joined the recovery party. The Organization of Economic Co-Operation and Development (OECD) tracks economic activity across forty-five countries, accounting for more than 80% of global GDP. In its November 2017 Economic Outlook, the OECD projected all forty-five countries would positively contribute to global growth for the year, a synchronization not seen in over a decade. Additionally, not only are global economies projected to grow in 2017, two-thirds of the countries are expecting growth rates to accelerate for the year.

According to the U.S. Bureau of Economic Analysis, real GDP growth in the U.S. accelerated from a fragile 1.2% annualized rate in Q1 to 3.2% by Q3. The combination of steadily improving growth conditions, the anticipation, and subsequent passage of widespread tax reform and significant regulatory relief has caused small business optimism to soar. The National Federation of Independent Business (NFIB) - Index of Small Business Optimism posted its strongest year in the survey's 45-year history.

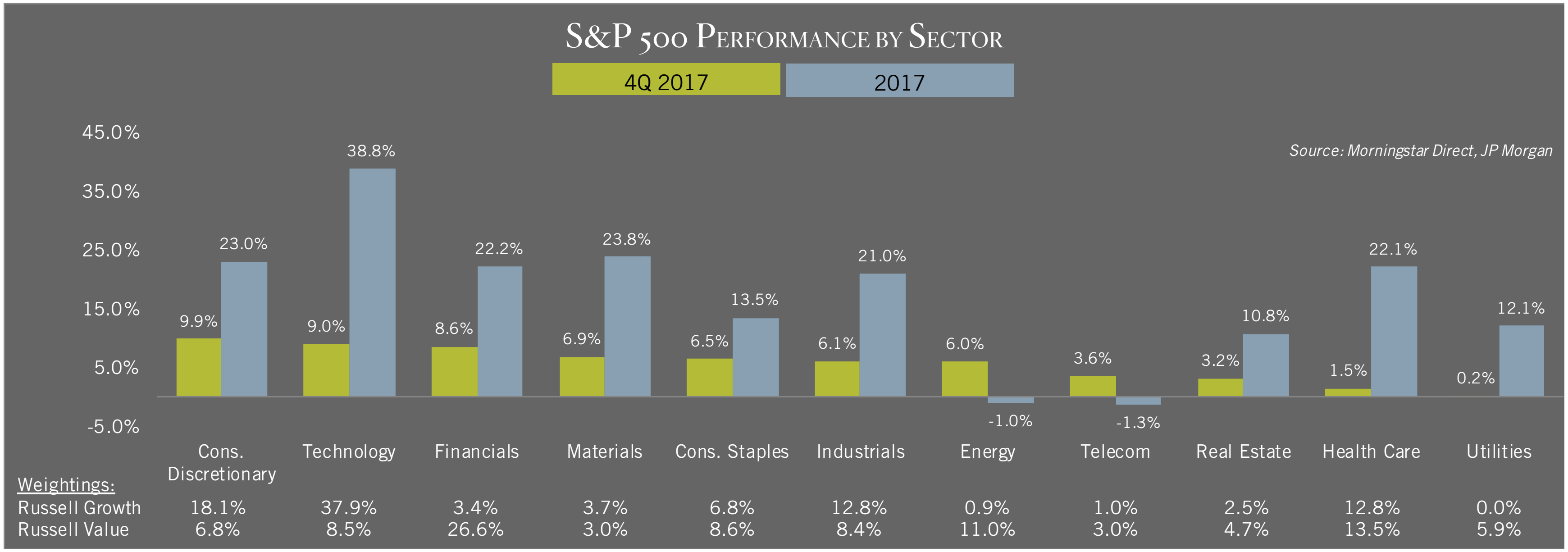
Equity Market Review

Money management behemoth BlackRock, Inc. reported that year-over-year profit growth in 2017 is expected to top 10% in every major region of the world. The widespread progress throughout the

GLOBAL GROWTH SYNCHRONIZATION



Source: OECD Economic Outlook November 2017, Welch Hornsby, Inc.



global economic and corporate landscape, combined with an expectation of continued improvement, provided an environment for extraordinary gains and unprecedented stability across nearly every major stock market. The MSCI All Country World Index ($), which captures 23 developed markets and 24 emerging markets, climbed 24.6% for the year, experiencing only two days of market declines greater than 1% (15-year average: 23.7 days). The largest one-day decline for the MSCI All Country World Index ($) in 2017 was -1.2% on May 17th, driven more by U.S. political dysfunction than global economic concerns.

U.S. Markets

With corporate profit margins near all-time highs, more of the top line growth fell to the bottom line. Additionally, a weakening U.S. dollar resulted in greater currency translation profits for companies with overseas revenue, leading to robust earnings growth for corporate America. Against this backdrop, for the first time ever, the S&P 500 was positive on a total return basis every month of the calendar year, continuing its many winning streak(s) - fourteen consecutive positive months, nine consecutive positive quarters and nine consecutive positive years.

Over the final quarter of the year, the S&P 500 climbed 6.6%, bringing its full year 2017 total return to 21.8%. Cyclical sectors continued their outperformance during the fourth quarter, led by the Consumer Discretionary, Technology and Financials sectors. On the opposite end of the spectrum, the interest rate sensitive, defensive-oriented Utilities sector ended the quarter up a modest 0.2%. The remarkable results by the Technology sector in 2017 (+38.8%) has increased the sector's representation in the S&P 500 to 23.8% and is approaching 40% in many growth-oriented indices.

The Technology sector's strong quarter enabled Growth benchmarks to continue their dominance during the fourth quarter, capping a remarkable year which saw the Russell Growth indices outpace their value counterparts by more than 10% across the capitalization spectrum. From a size standpoint, generally larger cap companies outpaced smaller cap companies assisted by an earnings bump associated with increased levels of overseas revenues.

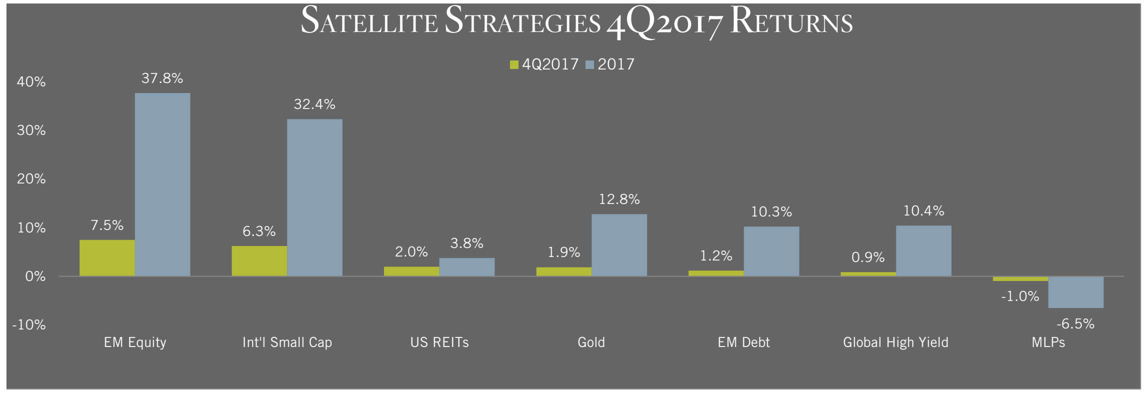
Foreign Markets

The MSCI EAFE Index ($), the popular foreign equity benchmark for U.S. investors which tracks developed markets in Europe and the Far East,

Capitalization and Style Performance

		Value	Core	Growth
Large	4Q 2017	5.3%	6.6%	7.9%
Large	2017	13.7%	21.7%	30.2%
Mid	4Q 2017	5.5%	6.1%	6.8%
Mid	2017	13.3%	18.5%	25.3%
Small	4Q 2017	2.0%	3.3%	4.6%
Small	2017	7.8%	14.7%	22.2%

Source: Morningstar Direct, Russell Indices



Source: Morningstar Direct, Welch Hornsby, Inc. - Emerging Mkt Equity: MSCI EM Index ($); Global High Yield: Barclays Global High Yield TR ($); US REITs - DJ US Select RESI TR ($); Emerging Market Debt - JPM EMBI Global Diversified TR ($); MLPs - Alerian MLP TR ($); Int'l Small Cap: S&P Developed Ex US Small TR ($); Gold - S&P GSCI Gold ($)

rose 25.6% in 2017, benefiting from robust equity returns and a weakening U.S. dollar. For the year, all 21 countries captured in the broad market index increased in value in U.S. dollar terms, including 20 double-digit advancers. Markets across Europe experienced relative underperformance in local currency, but the strengthening euro more than offset any local market weakness, resulting in a 26.2% return for the MSCI Europe Index ($). The Japanese market soared, buoyed by strong earnings growth and political stability, ending the year with a 24.4% return, as measured by the MSCI Japan Index ($).

Word of caution: while the market is riding a wave of rising optimism, I am reminded of Sir John Templeton's famous quote: *"Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria."* I am certainly not stating that the rising optimism is excessive or unwarranted; however, the market's unrelenting momentum feels a bit euphoric with markets potentially accelerating faster than economic fundamentals are improving.

Fixed Income Review

Throughout the fourth quarter and full year, bond investors experienced a flattening yield curve as the Federal Reserve continued their rate normalization program by raising the Fed Funds target range 75 basis points, while longer-term yields remained anchored by low inflation, reduced supply and elevated demand. The Fed has forecasted three additional rate hikes in 2018; however, with an already flat yield curve would Jerome Powell, the incoming Fed Chair, be willing to invert the yield curve with Fed policy moves? The market is skeptical.

Reviewing credit sectors, spreads narrowed during the year, approaching 10-year lows, rewarding investors for taking risk within the bond market. Leading the way were investment-grade corporate bonds which climbed 1.2% for the quarter and 6.4% for the full year. In aggregate, the broad investment-grade bond market gained 3.5% in 2017 as measured by the Bloomberg Barclays U.S Aggregate Bond Index.

Satellite Strategies

Emerging markets were the big winner within the Satellite asset classes for the quarter and the year, rising 37.8% in 2017. International small cap was another 2017 top performer gaining 32.4%. On the negative side, MLPs faced significant headwinds throughout the year, declining 6.5%.