2016 Recap

- Looking back at 2016 it was a classic transition year with market leadership seemingly always in rotation.
- U.S. small cap stocks performed best among major asset classes returning 21.3% while large caps returned 12.0%.
- International stocks didn't offer much upside posting a meager return less than 1.5%. However, the emerging markets, somewhat surprisingly, returned in excess of 10% lifting the overall non-U.S. investment index.
- The year began with a sharp and sudden decline due in large part to plummeting oil prices and fear of a slowing global economy. However, most indexes began an upward trend by early February and rallied post U.S. election and into year-end.
- 2016 was a challenging year for many investors. Positions that worked well in the first half of the year lagged in the second half and those that trailed earlier in 2016 picked up steam into year-end.
- However, investors generally managed reasonable returns despite a sharp correction, the "Brexit" vote, and the Trump election.

Equity Outlook

- Much like last year we believe that 2017 will be an acceptable year for global equities overall. While many concerns remain, generally valuations remain fair and most regions have positive growth outlooks.
- We anticipate returns that may be a little below long-term historical averages and continue to expect the long anticipated rise in volatility.
- 2017 represents an opportunity for International stocks to make up for relative underperformance last year, as the strong/strengthening dollar should bolster European and Japanese exporters.
- Emerging markets continue to face several headwinds including low growth, a rising U.S. dollar, and possibly several U.S. interest rate hikes. While we believe these markets still represent the greatest growth potential longer-term, we feel as though the current headwinds may outweigh longer-term prospects.

Fixed Income Outlook

- Whereas last year we believed the Fed was likely to raise rates fewer times than the market had priced in, this year we believe the surprise could be an extra rate hike that the market doesn't expect.
- Our analysis leads us to favor intermediate and shorter maturity bonds over longer maturities given the likelihood for more than one rate hike this year.
- For taxable investors/accounts municipal bonds offering tax-advantage income is looking increasingly attractive. While there is uncertainty surrounding the Trump tax plan, Municipals are yielding close to taxable fixed income on a pre-tax basis. This has historically been an attractive time to consider increasing exposure to tax-advantaged bonds.
- Emerging market bonds are subject to many of the concerns highlighted for emerging market equities. While yields are more attractive on an absolute basis, we remain cautious about chasing yield.