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2017 Recap

- 2017 was a year in which investor confidence returned to the markets. Despite political concerns following the election of a non-traditional president, fear of rising interest rates, and ongoing geo-political uncertainty the global investment markets posted impressive results.
- U.S. stocks, measured by the S&P 500, gained 21.8% on a total return basis, with Non-U.S. stock stocks measured the MSCI World ex. US index returning a few percent more.
- The broad-based Barclays Aggregate Bond Index returned 3.5% and short-maturity bond indexes experienced a slightly lower return of 1.7%.
- During 2017 global macro-economic factors began to highlight sustained strength around the world. Corporate earnings both here in the U.S. and in most countries abroad began to see real year-over-year growth.
- However, investors generally managed reasonable returns despite a sharp correction, the "Brexit" vote, and the Trump election. By the end of the year, "global synchronized growth" was all the talk in the financial media.

Equity Outlook

- We believe that the relatively strong fundamentals, late cycle growth, and earnings momentum will continue in 2018. While broad market valuations are above historical averages, equities still remain attractive on a relative basis.
- We anticipate positive returns in the U.S. with small and mid-cap stocks potentially playing catch-up to the S&P 500. Longer term, we expect returns to be slightly below historical averages given that current valuations are at the high end of the range.
- International markets are experiencing improving growth, low interest rates and moderated concerns regarding Brexit and other political contests should provide for positive returns. While this market segment outpaced the U.S. markets in 2017, the international markets still lag the U.S. significantly over the past five plus years.
- Emerging Markets look poised to post good results in the coming year. Growth remains positive, energy prices have stabilized and commodities appear to be gaining strength as global growth continues.

Fixed Income Outlook

- Whereas last year we believed the Fed could potentially raise rates a little more than the market had priced in, this year we would likely take the under with Jerome "Jay" Powell, Trump's appointment as Chair of the Federal Reserve, set to replace current chair Janet Yellen in February. We expect he will remain inline with market expectations or potentially choose to be more dovish upon his assumption of power.
- While last year the yield curve generally flattened, we are monitoring the impact of stronger than expected growth and hints of inflation to reverse that trend. This would benefit short-term bonds and likely negatively impact longer-term bonds.
- With growth prospects looking up and general credit worthiness remaining acceptable, we prefer credit risk to pure duration risk.
- However, now may not be the best time to chase yield.