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2017

Quarterly Investment Commentary

Summary of Quarterly Market Performance

By: Christopher M. Lamb, CIMA, CTFA

The markets have been on a roll lately, no one can deny. The election of Donald Trump as president has given the markets a continuing level of confidence based on a variety of different factors. Tax reform and economic growth are two areas that the Trump administration have targeted, and the equity markets seem to be a direct beneficiary of this administration. Growth is good. Tax reform is good. There seems to be a theme to this market rally and the world is taking notice.

Equity prices were the highlight during the past quarter with the broad market, as measured by the Standard and Poor's 500, adding 6% for the period. Value-based investments lagged growth stocks during the period. With enhanced opportunities for economic growth, growth-based investment styles snapped to attention, with value-based strategies taking a backseat for the time. Both small-cap and mid-cap investments, in general, fared decently well providing investors with 2.5% and 3.9% returns, respectively, during the period. Small cap stocks could be taking a 'breather' for the time, coming off of a very successful run during 2016.

International equities, both on a developed and developing basis bested our own domestic large cap index, with the MSCI international EAFE and emerging market indexes providing 7.3% and 11.1% rates of return, respectively, as measured on a US Dollar-denominated basis. With some weakness in the US Dollar during the period, there were currency benefits in holding non-US denominated investments. The Trump administration has commented that they have very little interest in 'protecting' the US Dollar against decline. That said, a declining US Dollar can have positive effects on international sales for multi-national exporters as well as investors themselves who earn returns on international holdings. For the time, this strategy has worked.

The fixed income markets had a knee-jerk rally based following poor fourth-quarter results. Interest rates rallied significantly through the end of the year, as an anticipated rate increase from the Federal Reserve became more of a reality given the pro-growth stance of the Trump Administration. As expected, the Federal Reserve raised flagship rates by .25% during the period, as a way to signify their commitment to a slightly higher interest rate environment. Many expect that higher rates will take time to happen, and we tend to agree. Rate increases will most likely be metered and at a slower pace than previous changes in Federal Reserve policy. In light of those actions, bonds were positive during the period, with corporate bonds edging out government issues. The Barclays Aggregate Bond Index provided investors with almost a 1% return during the quarter, with high-yield corporate issues leading the charge adding 2.7% during the period. Continuing confidence in corporate and economic growth rates buoyed confidence in lower-grade debt issuers as investors sought yield over safety during the last quarter. Global fixed income investors had double the good news as both the bond markets rallied in their favor, as well as a declining US currency environment added to returns nicely. Global fixed income added 2.3% during the period, a nice benefit for those choosing to asset allocate among different types of bonds as well.

Commodity prices were largely mixed during the period, with oil prices ending surprisingly lower during the quarter in light of the Trump administration's pro-growth stance. However, a declining US dollar was largely the culprit during the last quarter. Gold prices rallied in lock-step with equity prices, but without any real direction since gold usually trades in conjunction with fear-based volatility, of which there has been little. Inflation has remained tame which has also kept the lid on significant price appreciation potential for the precious metals markets.

Investors are reminded that markets trend higher at the cost of periods of increased volatility. As most long-term investors have noticed, long-term equity ownership can be beneficial if met with a reasonable set of expectations. The returns of the recent bull market have been fruitful, without much doubt. But, as with any historical bull market come periods of unrest and volatility. Don't let temporary volatility disarm investment strategies designed to achieve your overall goals. *So far, so good.*

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