

Equities Enjoy Strong 2017

The end of 2017 brings to a close one of the best years for global equity markets in nearly a decade. The S&P 500 set repeated records and gained a whopping 19.42% for the year, only to be outperformed slightly by international developed markets and emerging markets. Overall, large caps outperformed small, and growth outperformed value.

Looking to 2018, the equity markets remain bullish, according to Raymond James Senior Research Associate Andrew Adams, with any early year weakness representing the first real buying opportunity since before the 2016 U.S. presidential election.

Despite a rising interest rate environment in the United States, core fixed income also posted a positive return for the year, taking in stride three increases in the federal funds rate that raised the target range to 1.25% to 1.50%.

The positive returns produced across major asset classes, as reflected in the chart below, made 2017 a good year to be an investor.

	12/30/16 Close	12/29/17 Close	Change Year to Date	% Gain/Loss Year to Date
DJIA	19,762.60	24,719.22	+4,956.62	+25.08%
NASDAQ	5,383.13	6,903.39	+1,520.26	+28.24%
S&P 500	2,238.83	2,673.61	+434.78	+19.42%
MSCI EAFE	1,684.00	2,050.79	+366.79	+21.78%
Russell 2000	1,357.13	1,535.51	+178.38	+13.14%
Bloomberg Barclays Aggregate Bond	1,976.37	2,046.37	+70.00	+3.54%

Performance reflects price returns as of 4:30 EDT on Dec. 29, 2017.

Here is a look at what's happening in the economy and capital markets, as well as key factors we are watching:

Economy

- Late additions to the tax law passed in late December, which reduced corporate taxes, among other things, should add a little growth to the GDP in 2018. The law is less likely, however, to produce long-term growth, according to Chief Economist Scott Brown.
- Economic growth will face headwinds from a tight job market and slow labor force growth, but an increase in wages over time could lead labor to become more efficient.

- The Federal Reserve's transition in leadership early in 2018 is expected to be smooth. The outlook for monetary policy, however, could become cloudy in the second half of the year, when policy errors could carry greater risks.
- We believe the Fed will maintain its gradual and data-driven approach to raising interest rates, with the expectation of two increases to the federal funds rate for 2018. Depending on the data, however, the Fed could opt for more or fewer increases.

Equities

- Conditions support a positive outlook for 2018: improving global economies and corporate earnings, as well as stable inflation levels and interest rates, according to Asset Management Services Chief Portfolio Strategist Nick Lacy.
- "If you look at the pillars of support, and if you back that up with technical support, you can't come up with any case where this market is going to roll over any time soon," Director of Equity Portfolio & Technical Strategy Mike Gibbs said.
- Energy stocks mostly lagged oil prices in 2017, but Senior Vice President of Equity Research Pavel Molchanov expects it to reverse in 2018; he envisions upside for both, with the equities outperforming the commodity.
- Typically, investors will experience three bull markets in their lifetimes, Chief Investment Strategist Jeff Saut reminds us. Consider whether the current one presents an opportunity for you to accumulate wealth.

International

- Despite German Chancellor Angela Merkel's inability to yet form a new majority government, European optimism rose to multi-year highs during December, helped by economic growth uplifts and an improving tone to the Brexit debate talks, which have moved to a second, more detailed stage.
- The Chinese economy and its currency, the yuan, were surprisingly resilient during 2017, and the announcement of a new round of anticorruption initiatives to accompany ongoing economic reform measures continues to show leadership's commitment to change.
- While emerging market assets pulled back somewhat during December, overall it was a positive year. Further progress can be made in 2018 if global trade markets remain fluid and the dollar does not bounce aggressively, according to European Strategist Chris Bailey.

Fixed income

- The outlook for U.S. fixed income remains obscured by economic and political uncertainty, according to Senior Fixed Income Strategist Doug Drabik.
- Among the forces at play will be tax legislation, Federal Reserve personnel changes, the global economy and central bank policy.

- Though challenged to contribute to total return in a rising interest rate environment, fixed income plays an important diversification role for its ability to mitigate the risk of equities.

Bottom line

- Looking to 2018, the equity markets remain bullish, with any volatility representing the first real buying opportunity for more than a year.
- The 2018 outlook for fixed income markets is uncertain, with economic and political factors likely to play key roles in the coming months.
- As we head into a new year, we will continue to monitor economic developments and breaking headline news, and will keep you updated with the most relevant information.

Please let us know if you have any questions about recent market events or how to position your long-term financial plan for the months ahead. We look forward to speaking with you.



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