MURRAY
INVESTMENT MANAGEMENT

4th Quarter 2017 Update

Equity markets performed extremely well during 2017. In the 4th quarter, the S&P 500 rose 6.64%, and for the year, the index was up 21.83%. Large Cap companies (as represented by the S&P 500) generally outperformed small and mid-cap stocks, and the growth style of investing soundly outperformed value. The technology sector was the best performer during the year and drove the Nasdaq up over 28%. The broad International market was up 25.03% for the year and outperformed the S&P 500 by over 3% with emerging markets showing particular strength (up 37.75%). It should be noted that these performance numbers are very strong and far exceed historical averages. We are not likely to see this level of performance in the next several years.

In December, the U.S. Federal Reserve raised interest rates .25% to a range of 1.25% - 1.50%, and the Fed expects to make 3 additional increases during 2018. Rate increases should be taken as a good sign as they indicate that the overall economic environment is improving and that the Fed feels the need to slow things down with higher rates.

The US economy seems to be doing very well and is poised for continued growth in 2018. The recently passed tax plan has the potential to boost corporate earnings and could be very favorable for the equity markets. In addition, we are currently experiencing a synchronized global expansion that is producing very little inflation, which strikes just the right balance. There is concern, however, that inflation will pick up and cause the Fed to raise rates more quickly than expected. This inflation risk is one of the more important investment factors to watch during 2018.

Domestic equity market valuations are trading at multiples that are on the higher end of their long-term averages, so we will likely need solid earnings growth to drive markets higher during 2018. The good news is that, with an improving economy and lower taxes, forecasting a good earnings year is a reasonable expectation, and we could see a strong earnings cycle that drives equity markets higher. We should, however, expect it to be a more volatile ride than we experienced in 2017, and reaching higher and higher market records will not go on forever. We will have a pullback at some point, and we should expect more modest returns during 2018.

Please give me a call with any questions.

Source: Morningstar, federalreserve.gov
The performance data shown represents past performance, which is not a guarantee of future results.
Return data is as of 12/31/2017. Index returns are total returns except for MSCI EAFE which is a net return.

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