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# Market Monitor

- The S&P 500 posted its 14 th monthly gain and its 9 th consecutive quarterly advance, ending 2017 just 0.62% below its latest all-time high of 2,690.16 set on December 18th .
- The S&P 500 rose or fell 1% or more in only eight sessions in 2017, the tamest trading year since 1964.
- Foreign equity markets outperformed the U.S. for the fourth quarter and for the year.

U.S. equity markets pared their best annual gains since 2013, but finished around 0.5% lower on the final trading day of the year as investors prepared for the extended New Year's weekend. Overall, domestic equities powered higher on a year-long theme of accelerating economic growth, rising at its fastest pace since early 2015. Other key catalysts include central banks' continued dovish policies, increased corporate earnings and improving labor market conditions; together they pushed consumer confidence to a 17-year high. Stocks also benefited from passage of the Trump administration's Tax Cuts and Jobs Act, which reduces corporate tax rates to 21% from 35%, as well as lowering individual tax rates. The S&P 500 Index, the broadest measure of U.S. equity performance, posted 62 record-setting highs in 2017 and returned 21.83% in 2017, almost double its 2016 gain.

The Dow Industrials finished the year with 71 new all-time highs, topping its prior annual record of 69 in 1995. The Dow, which began the year below 20,000, posted successive 1,000-point milestones at the fastest pace since its creation in 1896. The index topped the 20,000 mark shortly after President Trump took office, advanced above 24,000 on November 30 and finished the year at 24,719.22, registering a 28.11% gain for the year. Among the three major U.S. indices, the NASDAQ Composite performed best, advancing 29.64% amid strong gains in technology companies.

Equity markets proved to be resilient in 2017, even as investors faced heightened uncertainty associated with historically-high valuations and a flurry of natural disasters, including wildfires in the west and three hurricanes along the gulf coast and southern Florida. Moreover, lingering geopolitical tensions with North Korea, threatening nuclear war against the U.S. and its allies, have not kept many investors sidelined. Despite short-lived spikes associated with these events, the CBOE VIX Volatility Index has mostly traded within a narrow range of its longterm average and ended the year more than 21% below where it began.

The U.S. Dollar Index capped its fourth straight quarterly decline, down 1% in the latest quarter, extending its drop this year to 9.9% for its worst year since 2005. Gold futures rebounded to $1,303.05/ounce at the end of the fourth quarter, extending its 2017 gain to 13.09%, its best year since 2010. Helped in large part by OPEC-led production cuts, oil finished the year broadly higher, recovering from a low of $43.22 on June 21 to ending the year above $60/bbl. WTI crude oil rose 12.47% in 2017.



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U.S. large cap companies, as measured by the S&P 500, outperformed mid and small caps in the fourth quarter and year-to-date (YTD) periods. The Russell Mid Cap Index rose 6.07% in the fourth quarter, whereas the Russell 2000, the leading measure of small cap performance, gained 3.34%. These same indices advanced 18.52% and 14.65%, respectively for the year. Value-oriented equities outperformed growth in December, while growth outpaced value in the fourth quarter and YTD. The Russell 1000 Value Index rose 1.46% last month versus a 0.78% gain on the Russell 1000 Growth Index. In contrast, the Russell 1000 Growth Index rose 7.86% in the fourth quarter and 30.21% YTD, whereas the Russell 1000 Value Index gained 5.33% and 13.66% respectively.

Within the S&P 500 Index, 8 of its 11 major sector groups advanced in December, led by Telecom (+5.77%), Energy (+4.88%) and Consumer Discretionary (+2.41%). Utilities (-6.14%) and Healthcare (-0.65%) declined the most last month. All 11 major sectors posted gains in the fourth quarter, with Consumer Discretionary (+9.87%), Technology (+9.01%) and Financials (+8.63%) up the most, while Utilities (+0.21%) gained the least. For the year, Technology (+38.83%), Materials (+23.84%) and Consumer Discretionary (+22.98%) rose the most, while just two sectors, Telecom (-1.25%) and Energy (-1.01%) ended negative in 2017.

The MSCI EAFE Index, which measures returns on developed markets outside the U.S. and Canada, trailed U.S. equities in the fourth quarter, but outperformed domestic equities on a full-year basis. The MSCI EAFE Index rose 4.23% last quarter versus a 6.64% return on the S&P 500. For 2017, the MSCI EAFE Index advanced 25.03%, whereas the S&P 500 returned 21.83%. Emerging markets equities, as measured by the MSCI Emerging Markets Index, outperformed relative to the U.S. equities in all three time periods. Emerging market stocks gained 3.59% in December, extending its fourth quarter gain to 7.44% and YTD advance to 37.28%. It was the best year for developing markets since 2009.

Turning to bonds, U.S. Treasuries, as measured by the Bloomberg Barclays U.S. Government Bond Index, rose 0.30% in December, which more than erased a November loss to end the fourth quarter with a 0.05% gain, and extended its 2017 return to 2.30%. The yield on benchmark 10-year Treasury notes ended the fourth quarter at 2.41%, up eight basis points during the quarter, while falling by four basis points during the year. Investment grade bonds, as measured by the Bloomberg Barclays U.S. Aggregate Bond Index, performed incrementally better than safer-haven U.S. government bonds, up 0.46% last month, which extended its fourth quarter and YTD gains to 0.39% and 3.54%, respectively.

Municipal bonds outperformed government and other investment grade bonds, as the Bloomberg Barclays Municipal Bond Index rose 1.05% last month, pushing its fourth quarter gain to 0.75% and full-year return to 5.45%. At the other end of the credit spectrum, the Barclays U.S. Corporate High Yield Index, which measures returns of below-investment grade corporate bonds, trailed its investment grade counterparts in December and the fourth quarter, but outperformed for the year. High yield corporate bonds gained 0.30% in December and 0.47% last quarter, which extended 2017 return to 7.50%.



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