GBA Financial

Monthly Newsletter
December 2017

COMMENTARY

There are still a lot of negotiations to be had regarding the tax bill, but it seems more and more likely that a bill will be passed. Republicans are hoping to get their first significant legislative win since controlling both Congress and the White House. The Budget Committee voted to pass the $1.5 trillion tax package and now the bill will head to the Senate to be voted on. We are going to hold off writing up our full analysis until we see the bill pass as there are so many moving parts. We do expect the bill to be passed and think (depending on the details) it could prove to be a solid transition with fiscal stimulus to the economy as monetary policy starts to tighten.

The Federal Open Market Committee (FOMC) held the Federal Funds Target rate at 1.00-1.25% after their September meeting. This was largely expected and all signs point to the December 13 meeting being the third time this year the Fed raises rates. We believe we'll see a 25bps rate increase; currently the market has a rate increase at a +90% chance of happening. The 10-year Treasury Yield has trended sideways-to-down for most of the year (currently at 2.42%), and we're not sure we'll see a large jump in the 10-year yield if we see a rate hike as the market seems to be waiting for the new Fed Chairman Jerome Powell and further direction from the Fed on their 2018 rate outlook. A colleague of ours recently put out some research surrounding the historical rates in relation to the Federal Funds Rate, showing that, historically, the 10-year should be around 3.71% if the Federal Funds Rate is between 1.00-1.50% (currently the target rate is 1.00-1.25% and expected to move to 1.25-1.50%). With the 10-year closing at 2.42% we have a 129bps difference from where we are now and where historically we would be. We don't expect the 10-year to get to the 3.70% range next year and will probably have our 2018 target on the 10-year in 3-3.25% range.

Turning to equities, large and small cap growth stocks continue to lead but there are some signs of Large Cap Growth stocks weakening relative to Small Cap Value. The chart above plots out the relative strength of Large Cap Growth versus

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ECONOMIC HIGHLIGHTS

S&P 500	2,647.58
DJIA	24,272.35
NASDAQ	6,873.97
OIL	$57.40/barrel
GOLD	$1,276.70/ounce
10-YEAR TREASURY YIELD	2.42%
UNEMPLOYMENT	4.1%
GDP	3.3% (Q3 2nd estimate)
CONSUMER PRICE INDEX (CPI)	+0.1% / 12 month change: +2.0%
CORE CPI	+0.2% / 12 month change: +1.8%

Consumer confidence: Consumer confidence reached 129.5, a new 17 year high, and beat the top end of estimates for the month. Job market strength and future positive outlooks for wages coupled with all-time highs in the stock market will do that to consumer confidence.

Retail sales: The economy added 261k nonfarm jobs in October and helped nudge down the unemployment rate from 4.2% to 4.1%. One blemish on the report is the participation rate, which dropped from 63.1% to 62.7%. This most likely is from hurricane effects and we would expect to see participation rate move back up.

Retail sales: Following on the consumer confidence, we would have expected better numbers from October's Retail Sales (+0.2%). This could also be hurricane effects that are dampening the numbers. We expect positive numbers as we head into the holiday season.

(cont'd.) Small Cap Value (calculated by taking the price of one asset and dividing it by another). When the line is falling, Small Cap Growth is outperforming Large Cap Growth, which we saw for all of 2016. At the time, it looked like it would continue to lead (looking at longer term charts and from fundamental view points), but the market rotated into Large Cap Growth and has continued to outperform. Still, it has shown some weakness where it looked like Small Cap Value was about to retake the lead (July, September, and currently). We still believe from our long-term charts and fundamental analysis that over the longer/intermediate term Small Caps will outperform.

Overall, the long-term view of the economy is strong, with many indicators pointing to a bullish economy and strong stock market. An improving economy and strong balance sheets for U.S. consumers and businesses should continue to drive the economy forward which should lead to an increase in investors' risk appetite. Here in the U.S., we are seeing healthy rotations in the stock market between style, size, and sector. This action speaks to how strong the current bull market is. International Equities have had a nice run this year as investors looked past the possible Brexit downside. Emerging Markets have benefited greatly from a falling U.S. dollar and commodities rally, but the U.S. dollar is finding support. We really like Emerging Markets, as we have positioning in EM equity and bonds, and we are looking to possibly increase exposure in Emerging Market equities in the future, but need to be cautious on when to make the move. If we see a raising 10-Year Yield, the fixed income side of our portfolio stands to benefit as we have continued to keep our duration low. Our research team is constantly evaluating our products and tactical position inside both our fixed income portfolio and equity portfolio looking both at the larger trends and short-term opportunities. With daily monitoring to accounts on an individual basis, we continue to rebalance accounts when they fall too far from their equity-to-fixed income ratio.

MARKET TRACKER

Index	3 Mo	1 Yr	3 Yr	5 Yr
S & P 500	7.65	22.87	10.91	15.74
MSCI EAFE	5.20	27.86	6.47	8.72
BARCAP AGG BOND	-0.55	3.21	2.11	1.98

Data as of 11/30/2017. Investments cannot be made directly into an index.

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