

3rd Quarter 2017 Update

Equity markets performed well during the 3rd quarter with the S&P 500 posting a 4.48% return, and for the year, the index is up 14.24%. The technology sector has been the best performer year to date and has driven the Nasdaq up over 20%. The broad International market is up 19.96% for the year and has outperformed the S&P 500 by over 5% with emerging markets showing particular strength (up 28.14%). International outperformance reverses a trend from the last 5 years when the S&P 500 soundly outperformed International.

The U.S. Federal Reserve did not raise rates during the 3rd quarter but expects to make 1 additional rate increase by the end of the year. Even with the recent rate increases, we will likely be in a “lower for longer” interest rate environment. Rate increases should be taken as a good sign as they indicate that the overall economic environment is improving, and the higher rates will provide more attractive yields for fixed income investments. The Fed also plans to begin reducing its bond portfolio which will be watched closely to determine the impact that this has on interest rates.

While domestic equity market valuations remain elevated, the U.S. economy is showing positive signs of better growth which could drive corporate earnings and equity markets higher. In addition, the Trump tax plan has the potential to boost corporate earnings and could be very favorable for the equity markets. But getting some form of the plan passed will be difficult, and the success or defeat of the tax plan will likely impact markets throughout the rest of the year.

Given the duration of the current bull market, there is concern that investors have become complacent and that the bull market is nearing its end. Usually, however, bear markets occur around economic recessions, and we are not likely headed for a recession in the short term. As such, an improving economic environment and better corporate earnings could drive equity markets higher. But reaching higher and higher market records will not go on forever, and we will have a pullback at some point. In this environment, I will continue to look for attractively priced securities and will consider any sort of market correction as an opportunity for potential investments.

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 09/30/2017. Index returns are total returns except for MSCI EAFE which is a net return.